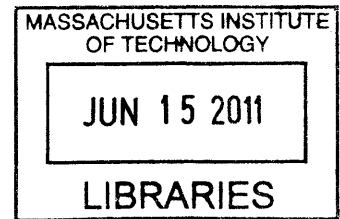


**Entrepreneurship in South Africa:  
Improving Access to Finance**

By

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B.S. Business Administration  
University of Southern California, 2003



SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN  
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# **South African Entrepreneurs: Improving Access to Finance**

By

**Amanda Alexander**

Submitted to the MIT Sloan School of Management on May 6,  
2011 in partial fulfillment of the requirements for the degree  
of Master of Business Administration

## **ABSTRACT**

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For a rapidly developing country, South Africa has relatively very low levels of entrepreneurship. This thesis will investigate the reasons for the anemic number of new ventures and, most specifically, tries to address one of the biggest obstacles South African entrepreneurs face: limited access to capital.

I have collected data from 47 South African entrepreneurs through questionnaires to survey their level of access to capital, their awareness of the resources that are available to them and to identify which organizations are the most helpful to them in terms of providing educational and financial support. Furthermore, I solicited their opinions on the future of entrepreneurship in their country and tested it against both conventional wisdom and academic hypotheses. I have compared what literature says is happening with what seems to be actually occurring.

The findings are that, like many other developed and developing nations, South Africa struggles to provide entrepreneurs with clear paths to capital. Entrepreneurs are also unsure of how to approach venture capitalists and other organizations for funding so education remains a key component to increasing the level of entrepreneurship. There are encouraging signs such as the increase in local organizations aimed at the rural population and women which, studies have shown, are key demographics to eradicate poverty through building new businesses. Several recommendations are outlined, mainly the enhancement of the role of government in fostering the growth of entrepreneurship through programs that are efficient and that attract international investors.

Thesis Supervisor: Matt Marx

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To my parents who have supported me unconditionally in all my endeavors.

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I would like to thank my thesis advisor, Professor Matt Marx, for his assistance throughout the process. The genesis of this journey occurred after taking your course, Designing and Leading Entrepreneurial Organizations, during the spring of my first year at MIT Sloan. It was a highlight of my educational experience at MIT Sloan as I became aware of the many challenges that entrepreneurs face and you provided a framework to analyze and address these problems. This newfound knowledge increased my interest in how challenges keep back many entrepreneurs and the resulting lost to society's innovative advancements. It was then that the idea of addressing the struggles of entrepreneurs started ruminating in my head and several months later crystallized in the form of a thesis idea with the goal of leveling the playing field for all the world's thinkers, inventors and free spirits. Furthermore, your gentle guidance allowed me to make my own decisions and maintain the authenticity of my original vision.

Additionally, I would like to thank all my friends and classmates at MIT Sloan who provided contacts to entrepreneurs, institutions and universities in South Africa. The speed at which I received responses to requests was quite impressive and speaks to the amazing network of MIT. You also asked insightful questions during my thesis research that enable me to rethink or refocus certain components of the paper to allow for clarity to the reader.

Next, my earnest gratitude goes out to all the 47 South African entrepreneurs who took the time to complete my online survey, chat with me on Skype and supply information and additional contacts through email. You have been the most critical component of my research and, without your help, none of this would have been possible. It is my sincere hope that this paper will enhance the business environment of the present and future entrepreneurs in South Africa and open doors for all the bright, young minds that seek to contribute innovative ideas to their local communities, the country and the world.

I am also grateful to my family for their constant support and encouragement. By graciously providing a sounding board as I considered concepts and various approaches, you aided me in tackling this expansive topic. Additionally, your input and constantly being on the lookout for relevant resources proved invaluable. Many thanks.

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## Preface

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The road to discovering the focus of my thesis topic was a winding path. At the onset of my thesis work, I was focused on study the impact entrepreneurship was having on the phenomenal economic growth of the BRIC nations. However, during my literature review, I realized how much work was already done on the topic. I want to make a measureable contribution and provide valuable insight at the end of my thesis work. I began to wonder if this was practical to accomplish before graduation given the vast amounts of studies already done on the topic. Furthermore, during my initial research, I stumbled upon interesting information about non-BRIC countries. Particularly intriguing was the CIVETS which represents Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa.

According to the UK Trade & Investment organization (UKTI), which accesses global investment opportunities, the CIVETS are projected to experience levels of economic growth that will rival the development that the BRIC nations have undergone over the past 10 years. More specifically, the UKTI's Economist Intelligence Unit estimates that these countries will grow by more than 200% over the next 20 years<sup>1</sup>. So I allowed myself to divert my attention to investigate further into the CIVETS, named after small, catlike mammals found in Africa and Asia. I knew that my level of excitement was an indication that redirecting my country focus, while still keeping the core of my topic and purpose the

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<sup>1</sup> Abbot, P. (2010, 12 2). The Next Generation BRICs. Retrieved 12 2, 2010, from Global Entrepreneurship Week: <http://www.unleashingideas.org/blog/next-generation-bric>

same, was worth considering. Since I wanted to do in-depth analysis, I quickly ruled out covering all the seven countries and opted to study one country: South Africa.

Before I address the main thesis question, it is important to answer two questions: 1. Why do I care about this topic? As a former entrepreneur, I am aware of the struggles that entrepreneurs face when trying to establish a business. But, more importantly, I know the wonderful feeling of empowerment when the venture is successful and you can support yourself and your family financially. To imagine this happening on a broad, country-wide scale is exciting. And although I am not South African or even African, I am an African-American. For my distant relatives and past generations, I hope that Africa continues on a positive path to posterity and peace with South Africa leading the way. 2. With the many issues affecting the levels of entrepreneurship in South Africa, why focus on issues around access to finance? Firstly, at the time of publication of this thesis, I will have completed a finance-focused MBA program at MIT Sloan and embarked on a career as a finance professional. I have a strong interest in issues around finance and it is an area of growing expertise of which I wish to broaden my knowledge and make contributions to systems beyond the borders of the United States. Secondly, during my literature review, there was a dearth of research reports that tackled the issue of access to finance head on. In an attempt to complete the picture and provide a more holistic set of solutions, I will respectfully defer to those with more cultural and historical insight in regards to the educational issues and social pressures prominent in South Africa.

# 1 Chapter 1: Introduction

## 1.1 Why South Africa?

Over the past several years, many businesses and investors have been focused on the BRIC nations (Brazil, Russia, India and China) and their increasing economic power. As the markets and the business environment in the United States and Europe mature, they seek opportunities elsewhere but are weary of unstable countries. Economists have pegged South Africa as one of the countries that have great investment potential for the future. In



Source: CIA Fact book

2009, Robert Ward of the Economist Intelligent Unit (EIU) coined the term CIVETS which identifies the second-tier of the big, emerging economies that are valued for their dynamic and diverse economies as well as their largely young population and political stability. The countries are: Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa.

The CIVETS are expected to account for approximately 20% of the G-7<sup>2</sup> total economic output over the next decade<sup>3</sup>. Additionally, in December 2010, China has invited South Africa to join the BRICs in a move to establish trade and investment links. It may be true that this alliance may be intended to enhance the geopolitical presence of South Africa and

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<sup>2</sup> G-7 represents the seven industrialized nations and is comprised of the United States, Canada, United Kingdom, France, Italy, Germany and Japan.

<sup>3</sup> Abbot, P. (2010, 12 2). The Next Generation BRICs. Retrieved 12 2, 2010, from Global Entrepreneurship Week: <http://www.unleashingideas.org/blog/next-generation-bric>

that the strategic location at the tip of Africa plays a role. However, the opportunities provided by this global attention should not be overlooked. Local entrepreneurs have the chance to capitalize on executives preferred entry into emerging markets and build new joint ventures. In a June 2010 interview with McKinsey Quarterly, South Africa's Deputy President Kgalema Motlanthe stated:

*We have a well-regulated banking system—such that, even with all the toxic products, South African banks were not affected. And we have a stable democracy. There's predictability; investors can invest in South Africa and use it as a springboard to the rest of the sister countries on the continent.<sup>4</sup>*

But how much is the economic growth in South Africa contributing to job creation? The world's attention turned to South Africa during the summer of 2010 as it played host to one of the biggest international events, the World Cup. While the games were thrilling, South Africa's progress was also on display. It is a nation whose rapid economic progress has intrigued the world. But many South Africans have since wondered: Where are the jobs? The continent's biggest economy has a staggeringly high unemployment rate of 23.3%. However, there has been encouraging results from the most recent Global Entrepreneurship Week on November 15-21, 2010 where attendance was up and local entrepreneurs actively sought solutions to their problems. A country cannot rely on rare events such as the World Cup or Summer Olympics to sustain its economy; it's just a temporary boost. A proven way is entrepreneurship. But why is the level of entrepreneurship so low in South Africa compared to other developing nations? That is the

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<sup>4</sup> Fine, N. D. (June 2010). South Africa in the spotlight: An interview with Deputy President Kgalema Motlanthe. McKinsey Quarterly, 1-6.



main question of this thesis which seeks to uncover the cause of the anemia and recommend solutions.

## 1.2 Entrepreneurial Education Efforts in South Africa

In March 2010, I had the opportunity to visit South Africa and meet young entrepreneurs at the African Leadership Academy which is on the outskirts of Johannesburg. In speaking with one of the founders, Fred Swaniker, who launched the academy in 2004 after graduating from the Stanford University Graduate School of Business, it seemed that the future for entrepreneurs was bright. I took a tour of the academy and saw presentations of new ventures launched by resident students. Among the ventures were a school bank and an egg farm business established to supply the school cafeteria. The students, who come from all across Africa, believe that the challenges that South Africa faces present entrepreneurs with unprecedented opportunities. Their simple yet ingenious ideas exemplify the largely untapped potential of the nation. One such student is Spencer Jay Horne, a 17-year-old who intends on creating a technology-based enterprise that creates jobs for South Africans and helps the overall development of the African continent. Students also hope that more South African entrepreneurs take on the challenge of creating ventures that provide solutions to global needs such as clean energy production. They are embodying the spirit of great inventors such as Thomas Edison who once said:

*"I never perfected an invention that I did not think about in terms of the service it might give others... I find out what the world needs, then I proceed to invent."*

*- Thomas Edison*

But after witnessing the brilliance of the young entrepreneurs at the academy, it was clear that a deeper analysis was warranted to discover this puzzling question: Why is the level of entrepreneurship so low in South Africa compared to other developing nations?

Why should the readers care? This thesis was written for students, investors, teachers, mentors, entrepreneurs and the inquisitive worldwide. We should all be concerned, or at least aware, of the happenings in South Africa. As China and other dominant economies are noting the strategic advantage South Africa possesses, it would be prudent to get ahead of the line and start establishing a stronghold there and build local businesses.

### 1.3 Key Findings

The results of the survey and interviews show that lack of access to capital remains the biggest issue facing early-stage entrepreneurs in South Africa. Although entrepreneurs are aware of this, they still lack the tools to know how to maneuver the financial landscape. Additionally, most of the entrepreneurs were highly educated and represented opportunity entrepreneurs rather than survival entrepreneurs. This is a positive sign as it shows that instead of being reactive, South African entrepreneurs are proactive and are leading with innovation.

### 1.4 Chapter Overview

**Chapter 2** gives a brief overview of South Africa's historical path, which has shaped its current state, as well as lay out the basis economic facts and the position entrepreneurship plays in the wider economy. This will lay the foundation of the wide-held belief by the international investment community that South Africa has a promising future. **Chapter 3**

will profile South African entrepreneurs, the environment in which they operate, basic resources available to them and challenges they face. **Chapter 4** previews the various financing options that are typically used to finance companies and puts them in context of the South African business environment. **Chapter 5** reveals the results of this paper's survey and interviews with a sample of entrepreneurs that represent early stage ventures in various industries. **Chapter 6** reveals interesting findings from the research that can provide insight into issues around access to finance. The paper ends with **Chapter 7**, recommendations to both South African policy makers and entrepreneurs looking for investors in South Africa.

## **2 Chapter 2: A Closer Look at South Africa**

### **2.1 Brief History and Background**

Africa is widely considered by the scientific community to be the cradle of mankind. The earliest evidence of human ancestors was identified in central eastern Africa dating back seven million years and modern humans 200,000 years. Tribes gradually migrated south to what is today South Africa and centuries later encountered European colonists who sought to take advantage of the strategic location of the Cape and the natural resources of the land.



Located at the southern tip of the African continent, the Republic of South Africa has a very rich history. With almost 50 million people, it was ruled by a white minority government that enforced apartheid<sup>5</sup> from 1948 to 1994. During the post-apartheid era, the democratic government has made it a priority to enhance the country's involvement in the international



markets. It is now Africa's superpower with the biggest economy and is widely considered the gateway to the rest of Africa.

## 2.2 Economy

Despite the recent economic downturn brought on by the global financial crisis, South Africa is a key emerging market. It has the largest economy in Africa and is committed to free markets making it a key business center. The GDP in 2010 was 2.8% and it is expected to reach 3.5% in 2011 and then grow at a rate of 4.2% over 2012-2015.<sup>6</sup> In terms of the overall business environment, South Africa is the second-highest of all the African countries.<sup>7</sup>

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<sup>5</sup> Apartheid is the legal racial segregation of whites and blacks in South Africa.

<sup>6</sup> Searle, M. (January 20, 2011). South Africa Business Forecast Report Q2 2011. Business Monitor International Ltd.

<sup>7</sup> Doing Business 2011: South Africa: Making a Difference for Entrepreneurs by the 2011 The International Bank for Reconstruction and Development / The World Bank



Country	Business Environment	Rank
Mauritius	60.2	1
South Africa	54.7	2
Egypt	44.2	3
Ghana	44.0	4
Botswana	42.0	5
Namibia	41.2	6
Kenya	39.2	7
Nigeria	38.0	8
Zambia	37.9	9
Uganda	37.0	10
Sierra Leone	34.3	11
Tanzania	33.5	12
Senegal	32.5	13
Burkina Faso	32.5	13
Gabon	29.7	15
Mozambique	28.6	16
Mali	28.4	17
Ethiopia	27.9	18
Guinea	27.0	19
Cameroon	26.3	20
Zimbabwe	26.1	21
Benin	26.1	21
Congo	25.8	23
Sudan	25.4	24
Equatorial Guinea	24.4	25
Cote d'Ivoire	24.2	26
Togo	23.4	27
Niger	22.7	28
Angola	21.6	29
Chad	19.3	30
Guinea-Bissau	18.5	31
Congo, Dem. Rep.	17.8	32
Regional average: 32.7		
Global average: 44.1		
Emerging Markets average: 39.6		
Source: World Bank, 2011		

However, there are several negative aspects that need to be addressed and that can be improved through increased levels of entrepreneurship. First, the unemployment level is

23.3% which ranks a lowly number 124 in the world. Currently, the South African government has made a concerted effort to reduce unemployment through the creation of jobs by putting a premium on entrepreneurial development and by prioritizing the needs of small businesses<sup>8</sup>. This poses to be a daunting challenge for the government to tackle on its own. Part of the reason that unemployment is so high is the exponential growth of young people. According to the latest numbers collected by the World Bank, the youth (defined as ages 15-24 for South Africa) account for approximately 37% of the working population<sup>9</sup>. Compounding the problem, the youth receive poor education and is underprepared to attain the limited number of skilled jobs that exist. The following chart illustrates the severity of youth unemployment in South Africa in relation to the rest of the world. According to the OECD<sup>10</sup>, South Africa has the highest rate of youth unemployment of the 36 countries surveyed by the OECD in 2008.<sup>11</sup>

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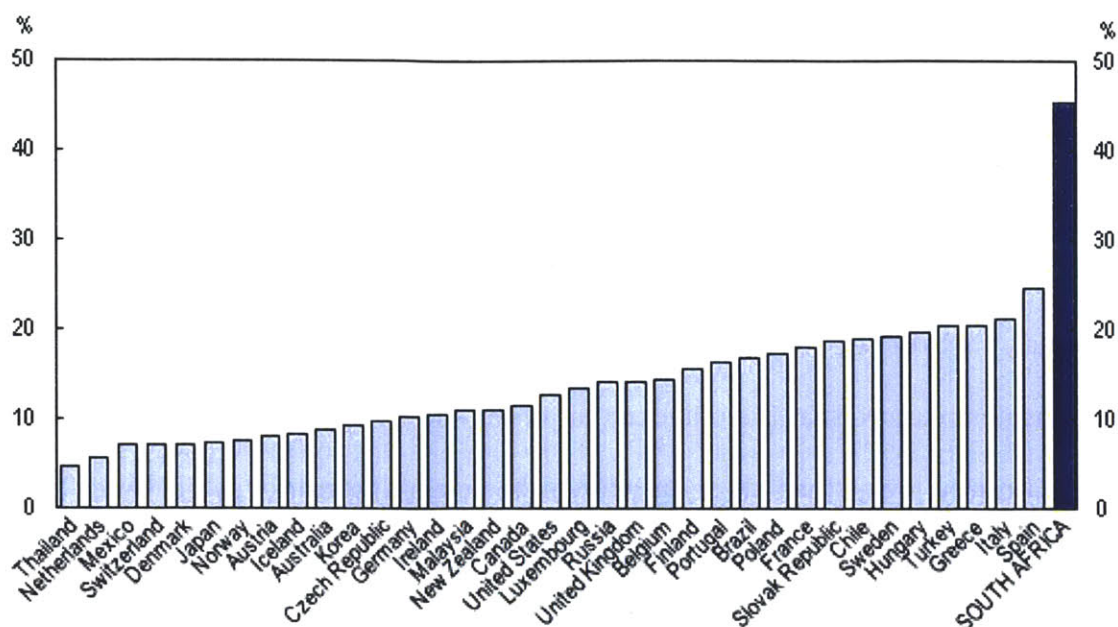
<sup>8</sup> Mike Herrington, J. K. (2011). Tracking Entrepreneurship in South Africa: A GEM Perspective. The Global Entrepreneurship Monitor, p. 12

<sup>9</sup> World Bank, 2007

<sup>10</sup> Organization for Economic Co-operation and Development

<sup>11</sup> OECD. (July 19, 2010). Economic Survey of South Africa 2010. OECD Publishing.

**Youth unemployment rate, 2008 1.**



1. Persons aged 15-24 years, 2007 data for Brazil.

Source: OECD, Labour Force Statistics Database; ILO, Laborstat Database; and Statistics South Africa, Quarterly Labour Force Survey.

It is also insightful to further break down the unemployment. Clearly, there is a racial divide in unemployment rates with Black South Africans having the highest rates. This is despite an attempt by the government to pursue the Black Economic Empowerment program that was launched to alleviate the effects of apartheid.

Unemployment rates by age and population group					
Percent, Q4 2009					
	15-24	25-34	35-54	Total	Share in working age population
<b>All population</b>	48.3	28.5	13.5	24.3	100.0
<i>By population group</i>					
<b>Black African</b>	53.8	32.2	16.6	28.6	77.7
<b>Coloured</b>	43.3	22.4	11.2	20.8	9.6
<b>Indian/Asian</b>	22.1	9.4	8.6	11.1	2.9
<b>White</b>	14.5	5.0	3.4	4.9	9.8
Source: Statistics South Africa, <i>Quarterly Force Survey</i> , Quarter 4, 2009.					

The main employment inhibitors specific to the country is skilled labor shortages and high crime rates. However, South Africa maintains a well-developed economic infrastructure and the emergence of a black middle class has presented businesses with new market opportunities. According to assessments made by the UK Trade & Investment (UKTI), South Africa has a developed banking system, a reasonable tax structure, and a solid economic infrastructure that can advance with capital infusion, plentiful natural resources, and a business culture that is similar to that of the UK.<sup>12</sup> Additionally, the unit labor costs are significantly lower than those in many other emerging markets. Moreover, its stock exchange, the Johannesburg Stock Exchange (JSE) is ranked among the top 20 globally and is the largest in Africa with a market capitalization of over \$750 billion. Furthermore, entrepreneurship and small, medium and micro enterprises (SMMEs) contribute to about 40-60% of GDP<sup>12</sup>. Overall, South Africa stacks up well against the other emerging markets in terms of GDP per capital and forecasted economic growth:

<b>BRICS IN THE WALL</b>					
	Nominal GDP, US\$bn *	Nominal GDP As % Of Global GDP *	Population, millions *	GDP Per Capita, US\$ *	2011 Economic Growth Forecast %
<b>China</b>	6,373	9.4	1,346	4,861	8.3
<b>Brazil</b>	2,133	3.2	197	10,830	4.5
<b>Africa – whole continent</b>	1,977	2.9	954	2,073	5.3
<b>India</b>	1,751	2.6	1,187	1,476	8.1
<b>Russia</b>	1,729	2.6	141	12,243	4.3
<b>Africa – Sub-Saharan</b>	1,340	2.0	782	1,714	5.9
<b>Mexico</b>	1,165	1.7	110	10,644	4.1
<b>South Korea</b>	1,039	1.5	49	21,211	3.2
<b>Turkey</b>	835	1.2	77	10,902	4.2
<b>Indonesia</b>	774	1.1	236	3,283	5.9
<b>Poland</b>	495	0.7	38	12,975	4.6
<b>Taiwan</b>	495	0.7	23	21,256	3
<b>Iran</b>	489	0.7	75	6,529	1.3

<sup>12</sup> Investment, U. T. (2009). South Africa Business Guide. UK Trade & Investment p. 6



South Africa	429	0.6	50	8,548	3.5
Argentina	423	0.6	41	10,316	4.6
Thailand	361	0.5	69	5,262	3.6
Nigeria	318	0.5	162	1,961	6.7
Egypt	266	0.4	86	3,146	5.1
Philippines	230	0.3	96	2,407	5.3
Pakistan	189	0.3	177	1,065	0.7
Vietnam	118	0.2	89	1,320	6.3
Bangladesh	112	0.2	167	668	5.6
<i>* denotes BMI 2011 Estimate</i>					
<i>Source: BMI</i>					

## 2.3 Entrepreneurship

### 2.3.1 Overview

There are many different definitions that exist for the term ‘entrepreneurship.’ This paper ascribed to the definition put out by Joseph Schumpeter, an economist and political scientist who was one of the first scholars to study entrepreneurship in the 1930s and develop lasting theories. According to Schumpeter, entrepreneurs are “fiery souls” who provide the innovation and technological change necessary to advance a nation. More specifically, he stated in 1934:

Entrepreneurship is seen as new combinations, including the doing of new things that are already being done in a new way. New combinations include:

1. Introduction of new goods
2. New method of production
3. Opening of new markets
4. New source of supply

## 5. New organizations<sup>13</sup>

Not much has fundamentally changed since Schumpeter's assessment. In today's terms, many people still recognize the value of entrepreneurship.

At first glance, it may seem that South Africa entrepreneurs are doing well. The country is one of few that have a total market capitalization of its stock market (\$750 billion) that outweighs the national GDP (\$490 billion)<sup>14</sup>. This suggests that large companies are very successful and experiencing rapid growth. However, these numbers can be misleading when analyzing the entrepreneurs at the bottom of the pyramid. According to the University of Cape Town Graduate School of Business, South Africa experienced a 40% decline in the number of start-ups in 2009 which cannot be attributed solely to the global financial crisis since the loss takes place at the already poor base. The early-stage entrepreneurship rate was a paltry 5.9% in 2009, down from 7.8% in 2008<sup>15</sup>. This is well behind the average rate of 14.8% for comparable middle to low income countries.<sup>15</sup> The reasons are complex but studies by the Global Entrepreneurship Monitor have concluded that the major culprits are:

- Poor education, particularly in math and science (a essential ingredient for innovation)
- Social pressures to choose a more stable, clearly defined career path to support one's family
- A challenging regulatory environment

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<sup>13</sup> Pol, E., & Carroll, P. (2006). An Introduction to Economics with Emphasis on Innovation. In E. Pol, & P. Carroll, An Introduction to Economics with Emphasis on Innovation. Melbourne: Thomson.

<sup>14</sup> GDP in terms of Purchasing power parity.

<sup>15</sup> Global Entrepreneurship Monitor 2010 Global Survey of 54 countries and over 180,000 entrepreneurs.

- Little access to finance, especially in attaining funding from micro-finance organizations

The latter of these has been identified as a key issue, with heightened importance due to the global financial crisis of 2008. While it is true that a culture of entrepreneurship needs to be nurtured to ensure that South Africans are confident in its ability to generate income for their impoverished communities, this paper will emphasize issues around access to finance.

### **2.3.2 The Present**

In 2009, South Africa ranked 35<sup>th</sup> out of 54 countries, with a Total Early-Stage Entrepreneurial (TEA) rate below the average (11.7%) of all participating countries.<sup>16</sup> But despite recent struggles, South Africa is ready for entrepreneurial growth. Local entrepreneurs are very aware of the opportunities around them and are encouraging others to take a leap of faith, embrace the risks and start a business. It is quite evident that their voice is being heard. During Global Entrepreneurship Week (GEW) in 2010, South Africa had a very strong presence, ranking number 12 out of over 105 participating countries in terms of number of participants. GEW was founded by the Kauffman Foundation in 2008 as a way to inspire young people around the world to use their creativity, imagination and innovation to launch new ventures. It is also a time when policy makers, educators and established entrepreneurs gather to discuss ways to enhance levels of entrepreneurship in their own countries and internationally.

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<sup>16</sup> Mike Herrington, J. K. (2011). Tracking Entrepreneurship in South Africa: A GEM Perspective. The Global Entrepreneurship Monitor.

Level of Participation in Global Entrepreneurship Week 2010						
Rank	Country	participants	% of population	events	Country Population	GNI per Capita **
1	Brazil	7,310,864	3.77366%	4,324	193,733,795	10200
2	United Kingdom	223,707	0.36176%	1,281	61,838,154	37230
3	Tunisia	168,740	1.61745%	100	10,432,500	7810
4	Lithuania	102,904	3.08137%	10	3,339,550	16750
5	United States of America	45,300	0.01476%	541	307,007,000	45640
6	Romania	42,503	0.19785%	1,244	21,482,395	
7	Venezuela	29,879	0.10527%	180	28,384,000	12220
8	Canada	24,204	0.07174%	384	33,739,900	37410
9	Mexico	16,850	0.01568%	131	107,431,225	14100
10	Sweden	15,355	0.16507%	112	9,302,123	38590
11	Italy	13,000	0.02159%	25	60,221,211	31360
12	<b>South Africa</b>	<b>10,570</b>	<b>0.02143%</b>	<b>38</b>	<b>49,320,150</b>	<b>10050</b>
13	Singapore	8,120	0.16280%	36	4,987,600	49780
14	Serbia	5,400	0.07377%	3	7,319,712	11530
15	El Salvador	3,630	0.05890%	36	6,163,050	6420
16	Bahrain	2,550	0.32218%	17	791,473	
17	Bermuda	2,373	3.68478%	43	64,400	
18	Cameroon	1,930	0.00989%	11	19,521,645	2190
19	Malaysia	1,900	0.00692%	34	27,467,837	13710
20	Lebanon	820	0.01941%	8	4,223,553	13400

Source: Compiled using data from GEW database

After compiling the above table with data from the latest GEW, several observations can be made:

- Although South Africa ranked high in involvement, there is still room to grow with only 0.02143% of the population contributing to the nation-wide events held throughout the week.
- South Africa was the most active in African nations proving that it is a leader for the continent and should signal to investors that it is an attractive place to invest as the people are serious about building businesses and they are poised to ramp up levels of activity.



- The United States has a very low rate of participation at a meager 0.01476%. One possible explanation is the relationship between entrepreneurship and development. Research has shown that counties with low levels of per capita income have higher levels of small businesses. As per capita income rises, industrialization and economies of scale favor large companies to meet the growing demands of the market.<sup>17</sup> With the generation of stable jobs by large firms, a reduction in start-ups is common and intrapreneurship<sup>18</sup> increases. However, the United Kingdom is also a developed market and it has a noticeably higher participant level. It is possibly that in the United States there are numerous outlets and events that the number involved in GEW is diluted.
- Brazil is light years ahead of South Africa, with a very strong involvement with over seven million participants representing 3.7% of its population, the highest in both categories. It is also a developing market with many challenges around education and racially-driven poverty similar to South Africa which bodes well for the South Africa's ability to overcome obstacles and enhance future prospects of its own entrepreneurial activity.

At the State of Entrepreneurship Summit in Johannesburg, a reoccurring cause of distress that was cited was limited sources of funding. Many felt that the only real source was the banking system. However, current entrepreneurs advised participants to remain optimistic and examine the resources around them to discover value. They stated that capital comes

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<sup>17</sup> GEM 2010

<sup>18</sup> Intrapreneurship is the act of behaving like an entrepreneur, except within a larger organization.

in many forms and, at the beginning, their capital might simply be their network, friends and knowledge but they must focus on the potency of these assets. One panelist advised using an old African proverb: “If you want to travel fast go alone but if you want to arrive at your destination take other people with you.” An example of this is the getting marketing advice from someone in the township. Only a local would know valuable nuances like the most successful marketing campaigns for the black South African target market entails putting boards on bicycles. While this is true, this paper will focus on examining the ways to increase access to capital to boost the number of options of hopeful entrepreneurs.

At present time, the following are the steps necessary to launch a business in the Republic of South Africa:<sup>19</sup>

1. Reserve a company name with the Registrar of Companies and pay ZAR 50. This takes 3 days to complete.
2. Lodge formation documentation with CIPRO in Pretoria, Gauteng Province, South Africa for registration. This is the costliest procedure at ZAR 350 for administrative fees plus 0.5% of authorized capital plus ZAR 60 to obtain the certificate needed to commence business. This process takes 5-7 days.
3. Open a bank account. There are no fees associated with this process and it takes 1-2 days.
4. Register with the office of the local receiver of revenue (SARS) for income tax, VAT, and employee withholding tax (PAYE and SITE). This is the longest step in the process at 12 days but there is no fee.

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<sup>19</sup> Doing Business 2011: South Africa: Making a Difference for Entrepreneurs by the 2011 The International Bank for Reconstruction and Development / The World Bank

5. Register with the Department of Labor for Unemployment Insurance. This process takes 4 days and can occur concurrently with step #4. There is also no fee.
6. Register with the Commissioner according to the Compensation for Occupational injuries and Diseases Act. This procedure takes approximately 10 days and runs concurrently with step #4. This process also has no fee.

The six procedures detailed above illustrate why South Africa received a less than stellar rank by the World Bank Group's Doing Business measurement. For 2011, it ranks 75<sup>th</sup> out of 141 countries, which a drop of nine positions from 2010. However, it is promising when compared to the OCED<sup>20</sup> averages as well as the rest of sub-Saharan Africa. At 6 procedures costing 6% of income per capita and 22 days total completion time is only slightly above OCED which averages 5.6 procedures costing 5.3% of income per capita and 13.8 days total completion time. Additionally, in contrast to sub-Saharan Africa, South Africa is vastly superior. The average for countries throughout the sub-Sahara is 8.9 procedures costing 95.4% of income per capita and 45.3 days total completion time.<sup>21</sup>

### **2.3.3 The Future**

There are many different paths that South Africa can take to improve its economy through entrepreneurship. One question is how the migration from other African nations will affect its economy. The influx can bring skilled labor or can spark violent attacks like those of

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<sup>20</sup> Organization for Economic Co-operation and Development (OECD)

<sup>21</sup> This numbers and process descriptions were provided by Doing Business 2011: South Africa: Making a Difference for Entrepreneurs by the 2011 The International Bank for Reconstruction and Development / The World Bank

2008 against migrant workers<sup>22</sup>. Another issue is government involvement. Jacob Zuma, the President of South Africa, has made recent reforms and set aside \$2.75 billions of dollars (20 billion rand) aimed at creating more jobs through tax allowances and is urging the private sector to contribute more to the creation of jobs<sup>23</sup>. However, some South Africans and economists are concerned that the government is relying too heavily on the state to create work rather than letting the private sector stimulate the development of employment opportunities. The administration's New Growth Plan is targeting five million new jobs by 2020 but skepticism is rampant as money set aside for previous initiatives have been lost to corruption and inefficiency. Nevertheless, it seems like a one-time measure to boost jobs after the massive downturn in 2009 due to global turmoil has potential.

Another issue is the ease of doing business. According to the World Bank, South Africa ranks number 34 out of 183 on the overall ease of doing business measures which is down from 32 in the prior year<sup>24</sup>. Unfortunately, it ranks 75 for its easing in starting a business (down 9 spots from last year). This is a measure of the length of time and the amount of steps necessary to launch in business. But despite the recent drop, over the past several years, there has been marked improvement, going from 35 days and 9 procedures in 2007 to 22 days and 6 procedures in 2011<sup>24</sup>. It still lags behind other African nations such as Mauritius (6 days, 5 procedures) and Egypt (7 days, 6 procedures) but it is headed in the right direction. The simplicity of start a business is a key driver for entrepreneurship so government prudence in this area is essential.

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<sup>22</sup> BBC, 2010

<sup>23</sup> lbtimes.com, 2011

<sup>24</sup> World Bank, 2011

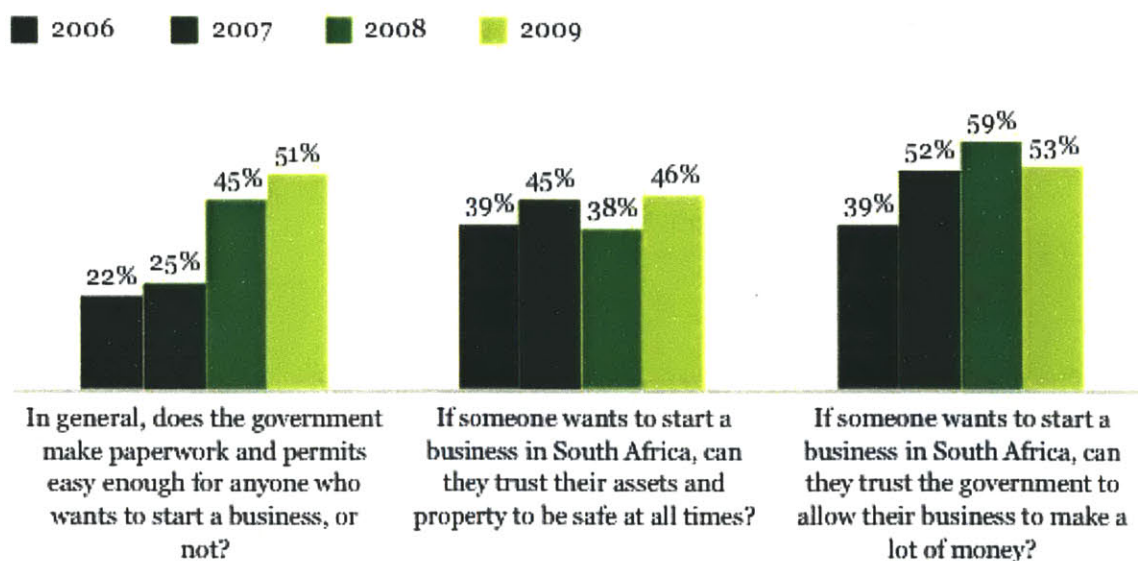


Topic Rankings	DB 2011 Rank	DB 2010 Rank	Change in Rank
Starting a Business	75	66	-9
Dealing with Construction Permits	52	52	No change
Registering Property	91	87	-4
Getting Credit	2	2	No change
Protecting Investors	10	10	No change
Paying Taxes	24	23	-1
Trading Across Borders	149	148	-1
Enforcing Contracts	85	86	+1
Closing a Business	74	77	+3
Source: Doing Business in South Africa, 2011			

Furthermore, the 2009 Gallup Poll suggests that South Africans are increasingly pleased with the government's efforts to make the registration process less complicated, with the approval rating more than doubling from 22% in 2006 to 51% in 2009. They also trust the government in term of upholding property rights and asset protection.

### *Opinions on Starting and Sustaining a Business in South Africa*

Percentage of South Africans answering "yes"

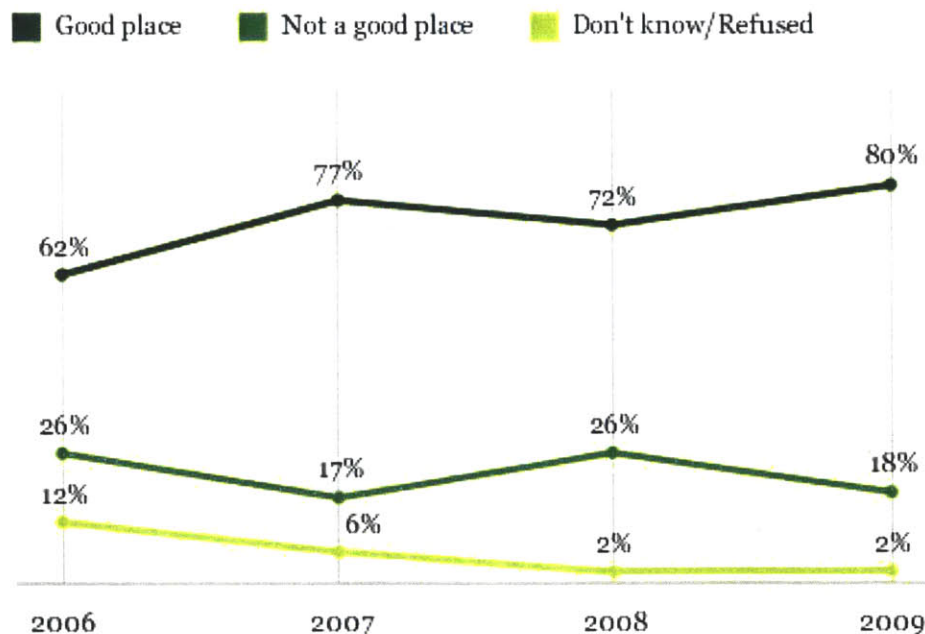


GALLUP POLL

Overall, South Africans are optimistic with 80% claiming that South Africa presents an environment that is conducive to starting a new business despite experiencing their first economic recession in 17 years. The poll, which surveyed approximately 1,000 adults in face-to-face interviews, proves that the maintenance of a business-friendly atmosphere is vital to the future growth of new ventures.

*Is the city or area where you live a good place or not a good place to live for entrepreneurs forming new businesses?*

Asked of South African adults



GALLUP POLL

### 3 Chapter 3: South African Entrepreneurs

In every part of the world, the face of entrepreneurship is unique and South Africa is no different. This section will dissect the attributes of entrepreneurs. In South Africa, there are two main types of entrepreneurs: the survival entrepreneur and the opportunity

entrepreneur. The former creates a business out of necessity and operate on a hand-to-mouth model. Usually, these businesses do not have the potential to grow into a large enterprise. On the other hand, opportunity entrepreneurs establish ventures that expand and result in the creation of new jobs.

### 3.1 Age

There are few entrepreneurs in the 18-24 age group, most fall into the 25-44 range and levels of activity begin to decrease with a precipitous drop at age 54.<sup>25</sup> The latest complete data set is from 2009 and the exact breakdown is as follows: 18-24 year olds (17%), 25-34 (26%), 35-44 (28%), 45-54 (21%) and 55-64 (8%). The drop in old age (55-64 years old) can be explained by the common desire of people in that age group to start preparing for retirement and enjoying their golden years. It is an odd time to start a new business as physical stamina and illnesses may also come into play. Although these numbers are in line with the rest of the emerging markets surveyed by GEM, there is cause for concern within the 18-24 year old age group. Unlike its counterparts, most South Africans do not enter tertiary school and attempt to enter the workforce. But with little acquired skills and without pursuing entrepreneurship as an outlet for innovative ideas, they are left unemployed.

### 3.2 Gender

The GEM Global Survey in 2009 indicates that South African men are 1.5 times more likely to engage in early-stage entrepreneurial activity than women.<sup>26</sup> This is a small advantage

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<sup>25</sup> GEM 2010

<sup>26</sup> GEM 2010 Global Survey



when compared to the other 54 countries in the survey; however, it may not be positive when taken in the context of the South African economy. Unemployment affects women at a higher rate so it is imperative that they become involved in the self-employment that can be obtained through entrepreneurship. If we benchmark South Africa against other countries with similar GDP per capita, such as Brazil and Argentina, its gender gap is much more pronounced. In fact, women in Brazil represent 52% of early-stage entrepreneurs<sup>27</sup>. These comparable countries also have higher overall rates of early-stage entrepreneurship which can be attributed to the higher participation of women.

### **3.3 Industry**

The industries represented by start-ups are unlike what we would see in developed countries and is not technology-focused as professionals in the Boston/MIT area may come to expect. Rather, given the struggles with proper education and low skill levels, South Africans focus on consumer services, which accounts for 67.2% of new early-stage ventures in 2009<sup>28</sup>. In terms of capital requirements and skilled labor, this field has a low barrier to entry. Unfortunately, the high concentration of businesses in this sector results in a low profit margin. Additionally, as witnessed during the global financial crisis, this sector is hit hard when there is a slowdown in the economy.

### **3.4 Silicon Cape**

With a nod to the success of Silicon Valley in San Francisco, California in the United States, South Africans have developed Silicon Cape. Located in the Western Cape of South Africa, it

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<sup>27</sup> Global Entrepreneurship Monitor Global Gender Gap Report 2009.

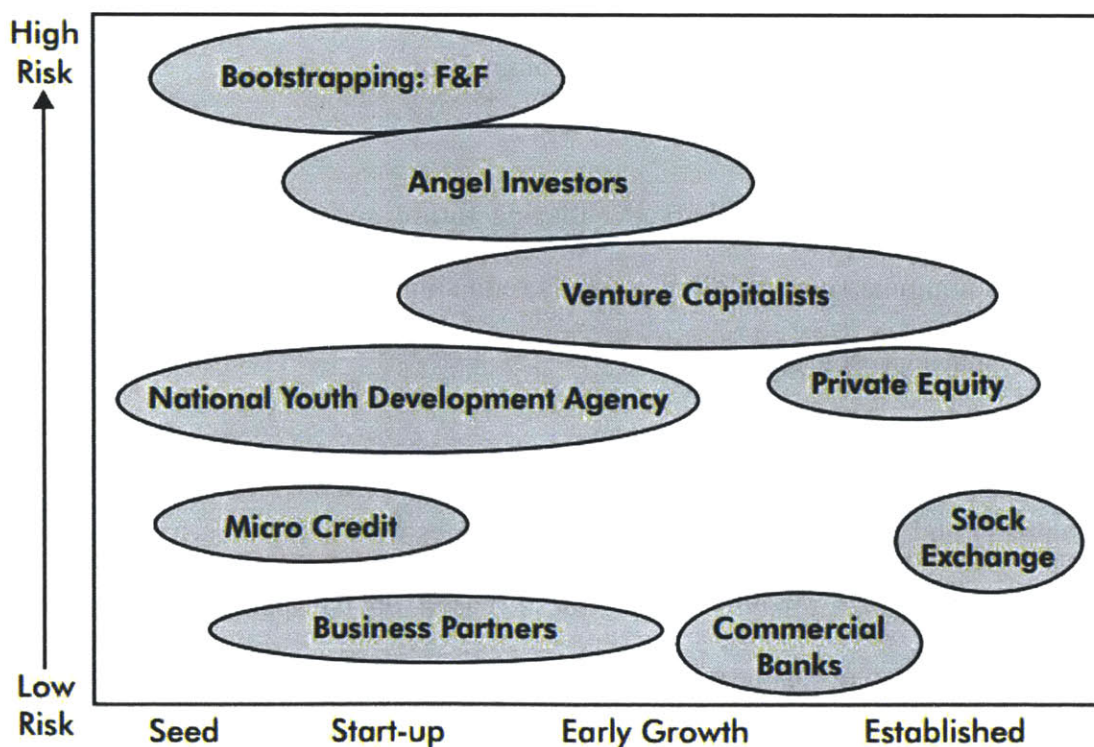
<sup>28</sup> Statistics South Africa 2010.



is a community of entrepreneurs, venture capitalists, angel investors and other professionals in the IT industry who seek to compete with other tech hubs around the world. With both local and foreign investors actively supporting the community, it has grown exponentially in the last several years and offers local entrepreneurs a rich platform to pitch their ideas.

#### 4 Chapter 4: Financing Options in South Africa

There are various sources of funding available to new ventures. When considering which one is best to pursue, entrepreneurs must evaluate the stage of their own business, the firm's attributes and their future plans. This section discusses the key avenues to raise capital that are illustrated below and incorporates the unique challenges that South African entrepreneurs face.



## 4.1 Bootstrapping

Bootstrapping is the primary source of funding for South African entrepreneurs. It is the process of raising money by creative means without the use of formal channels such as the banking system. This method seems to be the preferred path as many people solicit their friends and family to launch their business. The rationale is rooted in the fact that people do not want to fall into debt so early in the lifecycle of the business when it has yet to generate any sufficient income that would be necessary to make interest payments.

One of the most famous South African entrepreneurs got started this way in 1967 and built one of the biggest business empires in South Africa, Pick n Pay supermarket stores. With this shining example, many seek to emulate through various bootstrapping techniques. Bootstrapping varies by country as different resources are available or practical depending on the country. For South Africans, the methods include:

- Borrowing money from the local community
- Foregoing a salary
- Bartering with suppliers by offering future services for free or reduced-priced equipment (may require letters of credit similar to IOUs)
- Sharing resources with others

The benefits of bootstrapping are that entrepreneurs retain management control of the company and have a sense of freedom that comes with being debt-free and not having to make monthly loan repayments. For these reason, bootstrapping is largely viewed as the cheapest method of raising business capital. However, the most prominent disadvantage is the additional strain that is put on new ventures to supply working capital. Any sudden

changes in needs due to unexpected events or rapid growth can make the company difficult to sustain. William Payne, of the Kauffman Foundation, advises bootstrapping entrepreneurs to "insist that the management team take minimal salary offset by generous equity compensation (options or outright equity grants)" until the venture is earning positive cash flow.<sup>29</sup> This will help to save cash as well as provide management incentives.

Within the context of South Africa, this paper's research survey will analyze how much of this selection is due to ignorance at the existence of other options, to personal pride and to the social pressure to avoid the stigma of being in debt.

## **4.2 Friends & Family**

A common practice around the world for entrepreneurs is to rely on friends and family members to provide initial funding; it is no different in South Africa. However, with a growing yet still limited middle and upper class, an entrepreneur's family and network of friends do not have much discretionary income or savings which they can contribute to a new venture. Furthermore, the strain of having to support extended families which are larger than in other countries depletes resources and makes investment in ideas less of a priority.

Generally speaking, the advantages of this method of financing are numerous: it is easy to obtain with few (if any) covenants, the terms of financing are more negotiable, no personal guarantee is required, the owner maintains control of the business and benefits from the growth upside. The disadvantages are the funding is limited to not only what friends and

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<sup>29</sup> William H. Payne, *Bootstrapping to Extend Cash Flow*, Ewing Marion Kauffman Foundation via Entrepreneurship.org



family are willing to offer but also what they are able to offer. Additionally, personal relationships can become strained if repayment does not go as scheduled.

### **4.3 Angel Investors**

Angel investors are rich individuals who are looking for entrepreneurs that present a good business opportunity and, sometimes, high return on investment (ROI). Unlike venture capitalists (VCs), angels do not always request a high ROI. Driven largely by personal interests, they sometimes value non-monetary gains such as the pleasure of seeing a new, cutting edge technology come to fruition or to see economic growth in a local community. In fact, they predominantly like to invest in seed and early-stage companies. As a result, they are known to willingly devote time to the organization without charging money. When they do require ROI, it is often in the form of “patient money” of which they agree to provide a longer time horizon than alternative sources of funding.

Typically, the size of this capital market is approximately 10 times that of the venture capital market<sup>30</sup> and angels invest in all industries. In South Africa, the data is less clear but it is probably not as large. Still, these informal investors play a prominent role in funding. Another distinguishing factor between the angels and VCs is that angel investors act as individuals or a group while VCs invest as part of a company. Additionally, given that they are often experienced entrepreneurs themselves, angels provide valuable industry and general management experience. As a result, they are frequently hands-on in the ventures in which they invest, thus, increasing the likelihood that they will invest only if they have knowledge or particular skills to add to the concept.

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<sup>30</sup> Studies done in US (Sohl and Sommer, 2000) and Scandinavia (Gullander and Napier, 2003)

The advantages of utilizing angels for financing are that they have more informal investment criteria when compared to more traditional lenders such as banks or venture capitalists.<sup>31</sup> This is due to the fact that they are investing their own money and are not restrained by an outside credit committee. Furthermore, they bring an abundance of knowledge and experience that the venture can leverage, many prefer to invest locally to promote the community and they do not shy away from high-risk investments or those in lesser prominent industries. There are drawbacks to using an angel. First, after the initial investment, angels rarely contribute to subsequent rounds of funding because they risk losing more money in an already high-risk investment. Second, at the onset of the firm, when the ability to use big name investors and brands can give product launches a boost, angels lack the high level of clout provided by other funding sources. Thirdly, the before-mentioned involvement by the angel in the firm's operations can be a double-edge sword as they may seek more control over the direction of the company. Overall, the advantages seem to outweigh the disadvantages thus making angel investors an attractive option.

Unfortunately, the process of locating angel investors is not transparent. By nature of their origins, angels are scattered throughout communities and often prefer to remain anonymous as they have amassed millions and do not want to attract con artists. The best way to find them is to tap into one's personal network. Due to the fact that they are investing their personal money, they rely heavily on their intuitions about prospective clients upon meeting them rather than shifting through business plans. Entrepreneurs can also find angels by utilizing the South African Investment Network's internet platform for establishing connections based on similar interests: [www.investmentnetwork.co.za](http://www.investmentnetwork.co.za).

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<sup>31</sup> <http://www.go4funding.com>

#### 4.4 Venture Capitalists

Venture capital is “independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies.”<sup>32</sup> Venture capitalists (VCs) raise capital from wealthy individuals and large institutional investors such as pension funds and university endowments. Unlike private equity firms that invest in late-stage companies, VCs primarily invest in early-stage companies over an estimated period of 7-10 years and provide a variety of services to ensure the company’s success with the goal of attaining a high ROI on their initial investments. Since their emergence in Silicon Valley, VCs are predominantly known for investing in technology and bio-tech firms but they do invest in nearly every industry.

VCs often expect a percentage stake in a company, a well-respected board seat, and a large share of future company profits.<sup>33</sup> The services they provide the start-up include business and financial administration, employee recruitment, risk management and contract negotiations. Additionally, entrepreneurs are the benefactors of established relationships built by the VC which expedites the growth process. However, entrepreneurs need to be mindful of their own company vision when soliciting VCs. There are varying levels of involvement and management by the VC as well as the fact that some VCs prefer only to get involved in the firm’s operations during certain business cycles. Equity splits and exit planning should also factor into early discussions before forming a partnership.

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<sup>32</sup> Lerner, Josh (2009). Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – And What to do about it. p. 7

<sup>33</sup> <http://www.go4funding.com>

The advantages of utilizing VCs for funding are that it allows the new venture to achieve its full growth potential, there is no requirement for a personal guarantee and the founding entrepreneur can potentially receive a generous exit package. The drawbacks for the entrepreneur include possible loss of management control and/or ownership of the company as the company will eventually be sold or merged. Therefore, approaching VCs for funding is probably not a recommended option unless the entrepreneur expects the company to experience dramatic growth within a few years.

In South Africa, there is a dearth of venture capitalists so getting their attention and receiving capital is an arduous task. The following firms are well-establishing in South Africa and have a positive track record:

- HBD Venture Capital: The team that runs the company has a technology background hence the initial focus on technology ventures. However, they now invest heavily in promising ventures in variety of sectors. Additionally, they created a new fund that, rather than invest in start-ups, invests in companies with existing revenue stream that are poised to go to the next level.<sup>34</sup>
- Biotech Venture Partners (Pty) Ltd: As South Africa's first life science and biotechnology VC fund, it offers equity financing exclusively and requires a seat on the company's board. They are currently not taking any new investments, which leaves new entrepreneurs in the field with few options for VC financing.<sup>35</sup>
- Triumph Venture Capital: Run by a team of South Africans with diverse technology and business backgrounds, this firm looks for start-ups, early stage and expansion-

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<sup>34</sup> <http://www.crunchbase.com/financial-organization/hbd-venture-capital>

<sup>35</sup> <http://www.bioventures.co.za>



stage South African technology companies. Their investments are long-term (3-7 years) and can range in size up to R3 million or 15% of the fund size.<sup>36</sup>

- Cape Biotech: Founded in 2002 as part of the Cape BioTech Initiative, it receives its capital from the Department of Science and Technology and seeks to develop the Western Cape's biotech industry.<sup>37</sup>
- Hasso Plattner Ventures: With R350 million in capital, they look for South African tech companies that have the potential to expand internationally.<sup>38</sup>
- Cape Venture Partners: Run by a team with a variety of different business experiences, this firm prefers companies that operate in the niche market. Their location in Cape Town reveals their proclivity towards tech firms but they consider all ventures except lifestyle businesses.<sup>39</sup>

#### 4.5 Government Funding

After the sweeping political changes that took place in 1994, the South African government has made a concerted effort to integrate small, medium and micro enterprises back into the economy. So much so that the Minister of Trade and Industry stated in 2005 that "the promotion of entrepreneurship small business remains an important priority of the government of South Africa... their contribution to growth and performance of the South African economy in critical areas such as job creation, equity and access to markets." <sup>40</sup> As a result, several government institutions have been launched to support this initiative with the aim of achieving six main goals:

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<sup>36</sup> <http://www.triumphvc.co.za>

<sup>37</sup> <http://www.capebiotech.co.za>

<sup>38</sup> <http://www.hp-ventures.com>

<sup>39</sup> <http://www.cvp.co.za>

<sup>40</sup> "Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises", released by the Department of Trade and Industry in 2005



1. Increased access to business finance
2. Greater access to markets
3. Suitable regulatory environment
4. Greater access to business support information
5. Better partnerships that facilitate the establishment of business support infrastructure
6. Better small business support delivery<sup>41</sup>

The major advantage is that the potential reach of effective government programs is vast. The government is motivated by overall economic growth in South Africa so, if a business proves to be sustainable, the program will likely invest regardless of the industry or sector. Additionally, the programs, if successful, can grow with the plethora of government resources so the potential pool of capital available to entrepreneurs is large.

Alternatively, government funding is rife with issues. First, there are allegations of corruption by officials who are siphoning funds aimed at the entrepreneurs. This demonstrates the theory of regulatory recapture in which the “private and public sector entities will organize to capture direct and indirect subsidies that the public sector hands out.”<sup>42</sup> Second, there is not enough focus on mentoring entrepreneurs to ensure that the business succeed, Third, the government has a history of allocating funds in inept ways. Moreover, the allocation process is complicated by the fact that South Africa has a

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<sup>41</sup> Global Entrepreneurship Monitor 2010

<sup>42</sup> Lerner, Josh (2009). Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – And What to do about it. p. 11

heterogeneous population.<sup>43</sup> Fourth, the process of getting funding is tedious and entrepreneurs must have the time to see it through.

The following are the most prominent institutions:

- Khula Enterprise Finance Ltd: A wholesale finance institution that partners with leading retail institutions, commercial banks, specialist funds as well as joint ventures to provide capital to entrepreneurs. This structure enables the organization to share the financing risks with the lenders. Khula also has a mentorship program and a land reform empowerment facility to assist black farmers and agriculture projects.<sup>44</sup>
- National Youth Development Agency: In operation since 2009, its goal is to encourage young people between 14 – 35 years of age to participate in the economy and develop their skills. Overseen by the President, it has 13 youth advisory centers and 121 youth advisory points all across the country. The agency supplies financing in amounts between R1000 and R5 million to new or existing business looking to expand that provide the South African youth with economic benefits.<sup>45</sup>
- The National Empowerment Fund: Established in 1998 and restructured in 2003, its purpose is to rectify the injustices caused by the apartheid system. Therefore, this fund provides black entrepreneurs with start-up or expansion funds for businesses across multiple sectors.<sup>46</sup>

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<sup>43</sup> Ibid. Studies show that the government programs that are most effective exist in countries where there is a homogeneous population as well as an English legal system and high GDP.

<sup>44</sup> <http://www.khula.org.za>

<sup>45</sup> <http://www.nyda.gov.za>

<sup>46</sup> <http://www.nefcorp.co.za>

- Industrial Development Corporation: This fund finances entrepreneurs that have businesses in industries that have been deemed competitive, such as textiles that focus on natural fiber production.<sup>47</sup>
- Innovation Fund: Set up in 1999 to spur technological innovations, it invests in intellection property protection, late-stage R&D and commercialization of new technologies.<sup>48</sup>
- Gauteng Enterprise Propeller (GEP): For businesses based in Gauteng, this agency gives up to R2 million to entrepreneurs who have a weak credit history or do not have enough collateral but have an economically viable business with strong growth potential. The agency determines an amount that the owner has to contribute, which is based on affordability.<sup>49</sup>
- Red Door: This Real Enterprise Development (RED) initiative was launched in 2004 to deliver advice, support and financing to all different types of new and existing businesses.<sup>50</sup>

## 4.6 Micro-finance

*I did something that challenged the banking world. Conventional banks look for the rich; we look for the absolutely poor. All people are entrepreneurs, but many don't have the opportunity to find that out.*

*- Muhammad Yunus,  
Microfinancer and Nobel Peace Prize Winner 2006*

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<sup>47</sup> <http://www.idc.co.za>

<sup>48</sup> <http://www.innovationfund.ac.za>

<sup>49</sup> <http://www.gep.co.za>

<sup>50</sup> <http://www.capegateway.gov.za/reddoor>

Without collateral, many entrepreneurs do not qualify for bank loans and resort to micro-finance funding. After the Usury Act Exemption Notice of June 1999, the micro-lending landscape in South Africa changed significantly. There are more options and more formal micro-financing investments taking place. Micro-finance institutions (MFIs) exist as both non-profits and commercial businesses and provide financial services such as salary advances, loans, and debt consolidation. In South Africa, cash loans are prevalent. The loan sizes tend to be small relative to the fixed costs of underwriting and monitoring them, however, it is still substantial relative to the average borrower's income. According to Innovations for Poverty Action (IPA), "the lender's median loan size of approximately US\$150 is 32% of its median borrower's gross monthly income. This lender typically offers 'medium-maturity,' 4-month loans, with a 7.75 to 11.75% interest rate per month. Repeat borrowers have default rates of about 15%, and first-time borrowers default twice as often."<sup>51</sup>

There are several advantages to using micro-finance institutions to receive funding. First, MFIs are keen on empowering women and minorities so entrepreneurs in those groups, who are also historically less likely to receive VC or angel funding, benefit from programs looking to boost their participation in the economy. Second, with micro-insurance, entrepreneurs can cope with increased expenses associated with loss of assets. Third, the funds provided allow business to move from "every-day survival" mode to "planning for the future" mode. The shortcomings of MFIs are: 1) a high effective, annual interest rate, 2) little monitoring by the MFIs on how the loans are spent which can prove to be detrimental

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<sup>51</sup> <http://www.povertyactionlab.org/evaluation/interest-rates-loan-maturity-and-demand-microfinance-loans-south-africa>

to entrepreneurs that would benefit from the guidance and due diligence of the MFIs. In the current regulatory environment, there are high default rates. 3) There are limited funds and MFIs usually only lend in small amounts that go toward “survival” businesses.

Some of the most prominent institutions in South Africa include:

- Small Enterprise Foundation (SEF): This organization aims to alleviate poverty by providing capital to women from poor rural areas throughout South Africa as well as the poor of the Limpopo province.<sup>52</sup>
- Khula Micro-credit Outlets (MCOs): Created to service the poor, especially women, in urban and peri-urban locations, entrepreneurs can raise between R350 and R3500. These outlets prefer non-traditional businesses for women such as manufacturing and tourism.<sup>53</sup>
- South African Micro-finance Apex Fund (SAMAF): Utilizing co-operatives, it supplies developmental micro-finance to very poor, survivalist enterprises.<sup>54</sup>
- Women’s Development Businesses (WDB): It has two specific programs that target the most destitute women. One is a poverty alleviation program that teaches financial skills in addition to providing loans between R300 and R4000. The other is an enterprise development program that allots the participating women a business mentor and loans between R5,000 and R10,000.<sup>55</sup>
- Marang Financial Services: Funds are allotted based on a group lending method that requires five to eight close-knit people and ranges from R500 to R10,000. The key is

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<sup>52</sup> <http://www.sef.co.za>

<sup>53</sup> <http://www.thedti.gov.za/offerings/offering.asp?offeringid=147>

<sup>54</sup> <http://www.samaf.org.za>

<sup>55</sup> <http://www.wdb.co.za>



that members of the group have to assess the economic viability of each other's businesses to ensure that the loan can be repaid.<sup>56</sup>

- Blue Financial Services: One of the few micro-finance firm that is listed on the stock exchange, it provides start-up capital to businesses in many different industries with loans between R15000 and R3 million.<sup>57</sup> Operating in 12 countries, it has extensive coverage in Africa.<sup>58</sup>

#### 4.7 Private Funding

Private funding can be obtained from majority-privately owned companies that actively support entrepreneurs by supplying financing, sector knowledge, mentoring and services to viable businesses. Through risk financing, agreements are structured using equity, shareholders' loan accounts, royalties, term loans or a combination of these. Beyond these generalizations, the criteria for funding vary wildly depending on the firm.

The advantages of private funding in South Africa is that it has grown since the Small Business Development Corporation, which was an initiative of the pre-democracy government initiative aimed at supporting entrepreneurs, and several of the most prominent corporations are involved. Furthermore, they typically offer second and third rounds of funding and have high ceilings for maximum exposure (usually in the tens of millions). Unfortunately, a major drawback is although these firms are willing to take on risky projects, they expect the returns to offset the risk thus increasing the cost of finance

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<sup>56</sup> <http://www.marang.co.za>

<sup>57</sup> <http://www.blue.co.za>

<sup>58</sup> According to Kiva, in 2010, Blue Financial Services Rwanda, a subsidiary of South Africa's Blue Financial Services, lost its operating license do to unethical practices (misreporting income and repatriating a sizeable amount of money abroad).

to the entrepreneur. Many times, substantial collateral is required. Moreover, there are few firms that offer this option. Currently, the most prevalent firm in South Africa is:

- Business Partners: It offers a variety of services entrepreneurs regardless of industry, business stage, race or gender although it aims to have women composed 41% of investments and Blacks 46%. Services include mentoring, consulting and property and risk management.<sup>59</sup>

#### 4.8 NGO

NGOs (Non-governmental organizations) pursue a social cause but operate independent from the government and political influences. Given the effects of apartheid on black South Africans, many NGOs focus on assisting black entrepreneurs. However, the overarching goal of the NGOs is to make “investments that foster local entrepreneurship and the growth of small and medium enterprises and that strengthen a country's health and economy.”<sup>60</sup>

The positives of this type of funding source are: they are familiar with the needs of the local community and business environment, they reach out to residents so entrepreneurs are likely to be abreast of the on-going programs that they develop and they support a wide array of industries. The key negative aspects of relying on NGOs for financing are: 1) the fact that there are limited available funds. NGOs do not have the pressure to perform that their for-profit counterparts have since NGOs do not participate in the competitive markets thus lessening their profitability. 2) Lack of organization in comparison to larger, government organizations leads to inefficiencies when dealing with entrepreneurs and potential investments.

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<sup>59</sup> <http://www.businesspartners.co.za>

<sup>60</sup> NGOPulse.org

There are many South African NGOs; two of the most prominent are:

- Zimele Investments (Pty) Ltd: Derived out of the Anglo American empowerment initiative, it strives to provide both financial and managerial empowerment to entrepreneurs. It only invests in start-ups or expansions where the business has substantial black empowerment shareholding and management.<sup>61</sup>
- Masakhisane: Aims to create sustainable businesses by partnering with entrepreneurs from historically disadvantaged South African backgrounds. It provides educational services as well as funding.<sup>62</sup>

#### 4.9 Stock Exchange

There is only one stock exchange in South Africa but the Johannesburg Stock Exchange is the largest in all of Africa. Founded in 1887, it has seen tremendously growth over the last several years and is currently within the top 20 exchanges in the world in terms of market capitalization.<sup>63</sup> Entrepreneurs, who wish to raise money in the capital markets through stocks, can perform an IPO (initial public offering) to exchange funds with the public in return for partial ownership in the company.

There are several key benefits to taking a company public as the firm can: 1) generate capital that is needed for it to expand, 2) used the capital to pay off existing debt, 3) benefit from increased public awareness about the company due to publicity from the IPO (new potential customers become aware of products), 4) gain exit strategies for its founders.<sup>64</sup>

On the other hand, a company will be burdened with added disclosure for investors and the

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<sup>61</sup> <http://www.angloamerican.co.za/about-us/anglo-zimele.aspx>

<sup>62</sup> <http://www.anglogold.co.za/subwebs/informationforinvestors/reports08/Masakhisane.htm>

<sup>63</sup> JSE Corporate Brochure 2010: JSE – Africa's Premier Exchange

<sup>64</sup> <http://www.investopedia.com/ask/answers/06/ipoadvantagedisadvantage.asp>



added cost that goes along with the reporting as well as meet the rules of public company regulatory bodies. Additionally, the stock market will apply pressure that may likely cause the company to focus on short-term results as opposed to long-term growth.

#### **4.10 Debt Financing**

Some choose to leverage their company either through short-term borrowing which lasts under one year and fund working capital or long-term loans which buy equipment and other assets. However, new ventures are unlikely to receive much debt financing since they usually have high levels of intangible assets, negative earnings for several years, and uncertain sustainability in the market.

In South Africa, there are two types of banks:

- Commercial Banks: The entrepreneur has to sign a deed of suretyship which personally guarantees the loan payment.
- Merchant Banks: Banks such as the Rand Merchant Bank that invest its own money, rather than client money, in entrepreneurial ventures.

When considering if to take on debt versus equity, entrepreneurs must carefully weigh the pros and cons of each option. The following is an outline that can aid in the decision making process:

#### **Equity Financing – Advantages:**

- Large injections of capital
- No interest payments
- No obligations to repay capital

- Often management assistance
- Often excellent networks

### **Equity Financing – Disadvantages**

- Capital available usually in large amounts
- Dilution of owner equity of shareholder equity
- VCs expect high returns (>50%)
- Investors generally want to exit in a given period

### **Debt Financing – Advantages**

- Amount borrowed can vary according to needs
- Does not dilute shareholding provided paid back
- No interference as long as regular payments are made

### **Debt Financing – Disadvantages**

- Creates a debt obligation
- Interest repayments affect income statement and cash flow
- Collateral is usually required from a bank
- If money is borrowed from friends and family, it can result in broken relationships
- Can increase the length of time to break-even<sup>65</sup>

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<sup>65</sup> Source: Howard Frederick



## **5 Chapter 5: Discussion of Empirical Results**

### **5.1 Methodology**

The research method was primarily the use of online surveys to collect both qualitative and quantitative data for further analysis as well as phone interviews that lasted 30-45 minutes on average. I collected data from entrepreneurs who are currently running businesses in South Africa. I identified approximately 125 people from primarily Endeavor South Africa and also GEM and MBA alums. Endeavor is a global non-profit that selects companies that are innovative, have developmental impact, role model potential and a viable business that is worth investing in. Endeavor then mentors them and provides networking opportunities to help them raise capital. This is a good group of participants since they are already informed about the various options available to them and can assess which have been the most helpful.

Nevertheless, there are potential drawbacks of the sample set. First, due to the partial reliance on finding entrepreneurs through MBA contacts, there is bias toward higher educated entrepreneurs. This may affect their knowledge of financing options as well as result in them having increased access to funding through their network which is clearly an international network. Second, the entrepreneurs willing to participate can be skewed towards those who were successful at gaining access to finance and staying in business. Those who could not receive adequate funding for their business or those that were struggling may have been too embarrassed to admit so to a virtual stranger. Along similar lines, highly profitable entrepreneurs may have been reluctant to share their story in fear of copycats and increased competition that could harm their business. Therefore, the net effect of these opposing shortfalls may have been muted.

Third, my overall solicitation and question wording may have biased the respondents. In reaching out to the entrepreneurs, it was insinuated that there was a problem gaining access to finance and that the financial institutions may be part of the issue. Thus, in answering question, participants may have focused more on their negative experiences. However, when considering all these factors in the context of this paper, the results of the survey are believe to be representative and reliable.

## **5.2 Collecting the Data**

The survey inquired about the entrepreneur's use of financing options as well as general awareness about financing options available to entrepreneurs in South Africa. During interviews, I had general discussion about the process of starting a business. Since some interviewees prefer to remain anonymous, they will be referred to by number to preserve their anonymity.<sup>66</sup> Data was collected from 47 entrepreneurs with business located in South Africa.

## **5.3 Presentation of Results**

### **5.3.1 Profile of Respondents**

In total, there were 47 entrepreneurs that supplied data. All 47 people took the survey with varying degrees of completion given the fact that many of the questions were optional. For 14 of the 47 sample set, more in-depth discussions were carried out. The following is a summation of the key attributes to give a sense of the crowd that their responses likely represent (This is a very diverse group when compared to the basic profile of an entrepreneur). The names of the participants and their business will be kept anonymous.

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<sup>66</sup> Number established by order of first contact.

- Nationality: 33 participants (70%) were native South Africans, 10 (21%) were not of African descent and 4 (9%) were from an African nation other than South Africa.
- Gender: 38 participants (81%) were male and 9 (19%) were female.
- Education: 25 participants (53%) completed tertiary school, 17 (36%) other, 5 (11%) secondary school.<sup>67</sup>
- Economic status prior to business: 43 participants (91%) self-identified as middle class, 1 (2%) rich and 1 (2%) poor.<sup>68</sup>
- Age at first business launch: the median age was 28, the average was 27.7, the minimum was 13 and the maximum was 50.<sup>69</sup>
- Number of ventures launched: 19 participants (40%) launched 3-5 businesses, 12 (26%) launched 2 businesses, 8 (17%) launched 5-10 businesses, 5 (11%) launched 1 business and 2 (4%) launched over 10 businesses.<sup>70</sup>
- Ownership: 47 (100%) of the participants currently own the business they were reporting about in the survey.
- Industry: 14 participants (30%) owned firms in the Business/Professional Services field, 6 (13%) in Financial Services, 6 (13%) in Technology, 5 (10%) in Health Care/Life Sciences, 4 (9%) in Agriculture, 4 (9%) in Other, 3 (6%) in Telecommunications, 2 (4%) in Entertainment, 2 (4%) in Real Estate and 1(2%) in Tourism. There were no participants in Consumer Goods & Services, Education, Industrials, Personal Services, Recreational Services, Retail or Utility/Energy.

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<sup>67</sup> All of the participants completed at least secondary school.

<sup>68</sup> 45 participants answered this question and 2 opted out.

<sup>69</sup> 43 participants answered this question and 4 opted out.

<sup>70</sup> 46 participants answered this question and 1 opted out.

- Location of business: 21 participants (44.7%) headquartered their business in Johannesburg, 11 (23.4%) in Cape Town, 3 (6.4%) in Pretoria, 2 (4.3%) in Centurion, 2 (4.3%) in Stellenbosch, 1 (2.6%) in each of the following: Midrand, Port Elizabeth, Rustenburg, Sandton and Durban.<sup>71</sup>
- Type of corporate structure: 26 participants (55%) had partnerships with other native South Africans, 18 (38%) had sole proprietorships and 3 (6%) had partnerships with people from other African nations.
- Selected by Endeavor: 38 (81%) of the participants were not selected by the Endeavor South Africa organization and 9 (19%) were selected by Endeavor.
- Bank account: 47 participants (100%) had bank accounts.
- Hired local South Africans: 32 participants (68%) employed local South Africans as part of their new business and 8 (17%) did not.<sup>72</sup>
- Intent to IPO: 36 (77%) of participants do not plan to list their company on the Johannesburg Stock Exchange in the future and 8 (17%) did intent to list.<sup>27</sup>
- Knowledge of additional funding sources: 22 (47%) were unsure of where to go to get additional funding if necessary and 20 (43%) knew avenues to raise additional capital.<sup>73</sup>
- Enthusiasm for local entrepreneurship: 33 (70%) of participants believe that the future hub of entrepreneurship in Africa will reside in South Africa, 5 (11%) think it will be Nigeria, 4 (9%) are unsure of which nation, 3 (6%) think it will be Egypt, and 2 (4%) think it will be Ghana.

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<sup>71</sup> 44 participants answered this question, 3 opted out

<sup>72</sup> 40 participants answered this question, 7 opted out

<sup>73</sup> 42 participants answered this question, 5 opted out



- Biggest hindrance to the growth of entrepreneurship: 14 participants (30%) believe that major problem is lack of access to capital, 13 (28%) believe it is an unlisted issue or set of issues, 11 (23%) government regulations, 7 (15%) lack of skilled workers/poor education and 2 (4%) social stigma against pursuing a risky career.<sup>74</sup>

### 5.3.2 Financing Profile

- Money spent establishing business: the median amount was USD\$48,907, the average was USD\$1,625,093, the minimum was USD\$0 and the maximum was USD\$45,000,000.<sup>75</sup>
- Money requested during initial funding rounds: the median amount was USD\$800,000, the average was USD\$1,473,812, the minimum was USD\$728 and the maximum was USD\$10,000,000.<sup>76</sup>
- Money received from funding sources: the median amount was USD\$254,846, the average was USD\$465,783, the minimum was USD\$0 and the maximum was USD\$2,000,000.<sup>77</sup>
- Percentage of requested money received: the participants who asked for funding received a median of 81% of their requested funding, the average was 66%, the minimum was 0% and the maximum was 200%.<sup>78</sup>
- Sources of capital used to establish business: 25 participants (53%) used bootstrapping, 10 (21%) used private funding, 10 (21%) used family, 9 (19%) used friends, 8 (17%) used angel investors, 7 (15%) used other sources, 4 (9%) used

<sup>74</sup> None of the participants selected crime.

<sup>75</sup> 30 participants answered this question, 17 opted out

<sup>76</sup> 15 participants answered this question, 32 opted out

<sup>77</sup> 20 participants answered this question, 27 opted out

<sup>78</sup> Compiled from data from 17 participants who answered the two questions on funds requested and funds received.



venture capital, 4 (9%) used government funding, 3 (6%) used bank loans and 0% used the community, micro-finance institutions or NGOs.<sup>79</sup>

### **5.3.3 Analysis of Financing Issues during start-up**

Firstly, it is important to recognize that although it is valuable to look at entrepreneurship on a general level, it should also be studied with focus on specific industry. There may be important differences between the problems experienced within various industries, such as manufacturing and technology, and such problems do need to be targeted with consideration of the needs and structure of each industry. This is a possible extension of this thesis for current and future academics. With that said, the goal of this study was to get a broad view of the financing issues surrounding nascent businesses within all sectors.

During interviews, participants were asked to elaborate on their experiences raising capital for their new businesses and several themes emerged.<sup>80</sup> First, bootstrapping was heavily relied on as many struggled to get bank loans. Even with MBA degrees, over 10 years work experience, clean credit records, what they deemed to be good business plans and collateral that exceeded the value of the requested loan, several people still had difficulty getting financing from banks. In one case, the bank would only fund 16 coffee machines and the entrepreneur had to bootstrap the rest of the business expenses. The company has now grown and has enough capital to provide internal financing but the owner is now disenchanted with the banking system and avoids dealing with South African banks, thus missing out on financing options as the enterprise expands.

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<sup>79</sup> People may select more than one checkbox, so percentages may add up to more than 100%.

<sup>80</sup> All of the participants interviewed also participated in the survey.

Another issue is that participants reported is that most finance institutions listed above are risk averse, discriminatory towards startups and pay mostly of lip service. The perception is that there is a mismatch in lending offerings whereby type and size of business is not correlated to, for example, a micro-financier's terms and conditions. Businesses are either too small and or too new to access facilities from this plethora of "lenders".

Additionally, some of the entrepreneurs mentioned that they cannot focus on their new business because they still needed to continue working and earn a living. They work nearly full-time at their professional trade while trying to get their start-up off the ground. The entrepreneurs that did not have a full-time job worked several jobs to generate cash flow. Unfortunately, this lack of focus makes it difficult to gain momentum. Although this is a common reality for many entrepreneurs worldwide, it is more persistent in South Africa where jobs are hard to come by and employees are more reluctant to leave when initially launching a new venture. This condition increases the level of difficulty that South Africans have to push through to succeed.

Furthermore, there were also issues around launching innovative products and services, especially within the health care field which is in its infancy on the African continent. The majority of the health care start-ups interviewed noted that the potential investors simply knew little to nothing about the field of medical devices that they were developing and thus, were reluctant to commit funds. One particular business was able to fund the early phases of the business themselves and use their early clinical data to persuade an angel investor to get involved. They were in a completely new area for South Africa and therefore all the normal issues such as undertaking animal trials, obtaining certification and

accessing the market provided massive challenges that were quite overwhelming at the time. Furthermore, for the entrepreneurs who seek to follow first-world biotech business model while residing in South Africa there are unique challenges, including difficulty finding senior academic partners. The new businesses are not capable to providing the proper salaries to postdocs in order for them to pay rent and keep the biotech venture alive. But although it is hard, entrepreneurs were able to attract strategic business partners to give advice on intellectual property and business strategy.

Health care entrepreneurs also emphasized the method of controlled, organic growth as one of the defining factors in their success. For example, one company was able to start small by using its own capital to design a heart valve. They have since expanded into dental implants, spinal and ortho implants, wound care and cosmeceuticals. Now, they are a high-end medical device supplier in South Africa as well as the United States and Europe.

Technology companies were also challenged as they tried to bring new concepts to the forefront of the South African IT landscape. Many believe that the venture capital is non-existent even though VC firms exist. One such company was involved in broadcast media firm that focused on immersive experiences in nature. Founded in Johannesburg by a native South African armed with only high school education, the idea was to fuse entertainment with technology. The founder and CEO had an amazing concept with great potential as he utilized the unique resources of South Africa that can only be accessed by locals thus giving him a strong competitive advantage. But this cutting-edge concept of bringing technology to animal and nature safaris, his team intends on bringing their expertise to various other locations around the world. As a serial entrepreneur that started at age 22,

he has a broad experience of leading over 10 previous ventures and employed numerous native South Africans. But he was frustrated that when dealing with startup tech companies, regardless of the founder's experience level, venture capital funding is slim. However, when analyzing his survey results, it was clear that he had a very limited awareness of the various financing options that were available. He was only aware of a couple venture capitalists and one NGO. Disenchanted with the fund raising prospects in South Africa as well as government regulations, he was focused on attracting foreign angel investors and admitted that he didn't know where to go for his next round of fund raising. Still, he is optimistic and believes that South Africa is the emerging hub of entrepreneurship in Africa.

Another story that embodies many of the challenges endured by technology companies includes a firm that is almost entirely software-based. Founded in Cape Town by a non-native South African woman who teamed up with another South African, they provide software-based communication solutions by partnering with internet and telecom service providers. As her second entrepreneurial venture, after starting her first at 22 years old after college, she spent about a year approaching banks and government agencies with her business plan and requested funding. The problem was not a lack of interest but a profound lack of skills and risk models to assess technology or, more specifically, software-based companies as investments. There are no valuation or risk models when the primary asset is intellectual property.

It would not be entirely fair to blame banks that generally do not, and should not, fulfill this role. It is only because the deficit of any real venture capital in South Africa that one feels

inclined to blame of the visible financial institutions. The government funding agencies, for any significant amounts of money, like above R500 000, are actually also ultimately backed by one of the banks (e.g. Khula), so it still all comes back to the bank and the agencies are really not in any position to deviate from traditional risk assessment models of the banks (nor do they have the skills).

There is also the Industrial Development Corporation's Support Programme for Industrial Innovation (IDC SPII) which is geared for high-tech companies. However, as a government agency, it is bogged down by bureaucracy and takes significantly longer than estimated to release funding. Furthermore, one needs to pre-specify everything about the software that will be developed well in advance. This requirement undermines the innovation process of being able to iterate and change course, so even if you realize you should no longer develop the software in the direction you had initially specified, you would rather not change course because then there is even more bureaucracy and longer to wait to get the grant funding. For an early stage company where cash flow is critical, the IDC SPII programme is not a viable option. Rather, this entrepreneur ultimately found angel investors, who had themselves built technology businesses, by building her own personal network, getting numerous referrals and almost exclusively through other entrepreneurs.

Another noteworthy issue is that of skin color. Although apartheid has ended, there are still lingering issues around race and several entrepreneurs have expressed that being the "wrong color" is a big inhibitor, regardless of venture's viability when pitching to VCs. This



feedback was given by both from Black South Africans as well as Coloureds<sup>81</sup>, the ethnic minority in the Western Cape who feel shortchanged by the Black Economic Empowerment initiative and it's favoritism towards supporting Black entrepreneurs. This is a very complex issue which requires domain expertise to be analyzed appropriately, thus, this study will not include it as a factor. Nevertheless, racism, and discrimination along various attributes, is an issue that affects entrepreneurs all around the world, including South Africa.

#### 5.3.4 Specific financial knowledge

A portion of the survey dealt with participant knowledge of the well-established sources for financing as outlined and describe in the earlier section. Below is a summation of their responses:

- Venture Capital: Overall, 49.4% were aware of all the listed sources but never used them, 43.8% of the participants were not aware of the listed sources of venture capital, and 6.8% received funding from one or more of the venture capital firms.
  - HBD Venture Capital: 28 participants (60%) were aware but never used, 13 (28%) did not know about the firm, and 3 (6%) received funding.<sup>82</sup>
  - Hasso Plattner Ventures: 23 participants (49%) knew about but never used the firm, 19 (40%) did not know about the firm, and 2 (4%) received funding.<sup>82</sup>

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<sup>81</sup> In South Africa, Coloured people refers to mixed-race descendants of indigenous Bushmen or San peoples and later European settlers.

<sup>82</sup> 44 participants answered questions from this section and 3 opted out.

- Triumph Venture Capital: 26 participants (55%) did not know about the firm, 15 (32%) knew but never used and 3 (6%) received funding.<sup>85</sup>
- Cape Venture Partners: 21 participants (45%) knew about but never used the firm, 19 (40%) did not know about the firm, and 4 (9%) received funding.<sup>85</sup>
- Government Funding: Overall, 55.6% of participants heard about the government agencies that provide capital, although the entrepreneurs never used them while 34.6% never heard of the agencies and 9.8% received money.
  - Khula Enterprise Finance Ltd: 24 participants (51%) were aware but never used, 17 (36%) were not aware and 5 (11%) received funding.<sup>83</sup>
  - National Youth Development: 26 participants (55%) were aware but never used, 17 (36%) were not aware and 2 (4%) received funding.<sup>84</sup>
  - The National Empowerment: 28 participants (60%) were aware but never used, 14 (30%) were not aware and 3 (6%) received funding.<sup>84</sup>
  - Industrial Development: 31 participants (66%) were aware but never used, 12 (26%) received funding and 3 (6%) were not aware.<sup>84</sup>
  - Innovation Fund: 31 participants (66%) were aware but never used, 7 (15%) received funding and 6 (13%) were not aware.<sup>85</sup>
  - Gauteng Enterprise Propeller: 22 participants (47%) were not aware of this organization and 22 (47%) were aware but never used it. None of the participants received capital.<sup>85</sup>

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<sup>83</sup> One participant did not answer this question.

<sup>84</sup> Two participants did not answer this question.

- Red Door: 30 participants (64%) have never heard of this organization, 13 (28%) are aware but never used and 2 (4%) received capital.<sup>84</sup>
- NGO: Overall, 79.1% of participants were unaware of all the NGO financing options available and 20.9% were aware but never utilized the option.
  - Zimele Investments (Pty) Ltd: 33 participants (70%) never heard of this organization while 11 (23%) were aware of it but never used it.<sup>85</sup>
  - Masakhisane: 35 participants (74%) never heard of this organization while 7 (15%) were aware of it but never used it.<sup>86</sup>
- Private Funding: Overall, 43 participants (68%) heard of the prominent private funding firm Business Partners although they never used it, 9 (19%) never heard of it and 4 (9%) received capital.
- Micro-Finance: Overall, 66% of the participants were not aware of all the micro-financing options available, 33.6% were aware but never used the organizations for funding and 0.4% received capital from one of the organizations.
  - Small Enterprise Foundation: 28 participants (60%) were not aware of this organization and 16 (34%) were aware but never used it. None of the participants received capital.<sup>87</sup>
  - Khulu Micro-credit Outlets: 29 participants (62%) were not aware of this organization and 16 (34%) were aware but never used it. None of the participants received capital.<sup>88</sup>

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<sup>85</sup> Three participants did not answer this question.

<sup>86</sup> Five participants did not answer this question.

<sup>87</sup> Three participants did not answer this question.

<sup>88</sup> Two participants did not answer this question.

- South African Micro-finance Apex: 33 participants (70%) were not aware of this organization and 12 (26%) were aware but never used it. None of the participants received capital.<sup>89</sup>
- Women's Development Businesses: 31 participants (66%) were not aware of this organization and 14 (30%) were aware but never used it. None of the participants received capital.<sup>89</sup>
- Marang Financial Services: 34 participants (72%) were not aware of this organization and 10 (21%) were aware but never used it. None of the participants received capital.<sup>87</sup>
- Blue Financial Services: 22 participants (47%) were not aware of this organization, 22 (47%) were aware but never used it and 1 (2%) received capital.<sup>89</sup>
- Non-Profit Organizations: Overall, 73.8% of the participants gave neutral-N/A ratings, 8.3% had very unsatisfactory experiences, 6.9% found them very helpful, 5.5% found them somewhat helpful, 5.5 % had unsatisfactory experiences.
  - Endeavor: 21 participants (45%) gave a neutral-N/A rating, 6 (13%) found it very helpful, 6 (13%) found it somewhat helpful, 3 (6%) had an unsatisfactory experience and 3 (6%) had a very unsatisfactory experience.<sup>90</sup>
  - Kauffman Foundation: 31 participants gave a neutral-N/A rating (66%), 3 (6%) had a very unsatisfactory experience and 1 (2%) had an unsatisfactory experience.<sup>91</sup>

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<sup>89</sup> 2 participants did not answer this question.

<sup>90</sup> 8 participants did not answer this question.

<sup>91</sup> 12 participants did not answer this question.



- Global Entrepreneurship Monitor: 25 participants (53%) gave a neutral-N/A rating, 3 (6%) had a very unsatisfactory experience, 3 (6%) found it very helpful, 2 (4%) found it somewhat helpful and 2 (4%) had an unsatisfactory experience.<sup>91</sup>
- South African Institute for Entrepreneurship: 30 participants (64%) gave a neutral-N/A rating, 3 (6%) had a very unsatisfactory experience, 2 (4%) had an unsatisfactory experience and 1 (2%) found it very helpful.<sup>92</sup>

## 6 Chapter 6: Interesting Findings

The participants were all highly educated can be categorized as opportunity entrepreneurs. This makes sense as respondents would need to have access to the internet and a computer to complete the online survey as well as have high speed internet access in order to perform Skype phone calls for interviews. Of these entrepreneurs, the majority noted that limited access to capital was indeed the biggest problem for South African entrepreneurs. Although the topic and questions of the survey itself could have biased the respondent, all the recent research about financing issues in reviewed for this paper have pointed to the same culprit. However, there are dissenting opinions as in the case of a former employee of Endeavor South Africa, who spent three years as the MD and has over 10 years experience in entrepreneurial development. From his perspective, the main issue was not financing but management talent. This viewpoint relates to the lack of education and skilled labor which, by the survey results, rank high but is not the main issue.

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<sup>92</sup> 11 participants did not answer this question.

Another key finding was that although Consumer Services was cited by GEM to be the overwhelming popular industry for start-ups, none of the participants had businesses in that sector. This may reflect the struggles these types of ventures have encountered during the downturn in the economy.

Furthermore, many interviewees felt that the state's emphasis on "youth entrepreneurship" has proven to be, and will continue to be, a waste of time and money. Most young people that develop enough skills to be employable in South Africa will ditch any entrepreneurial venture if offered reasonable full time employment. The research has shown this to be true as well as dozens of conversations with prospective "youth entrepreneurs" by an interviewee with experience in entrepreneurial development. After reviewing the GEM report and analyzing some data downloaded from the World Bank, the evidence supports the participants' assertion that it is a current trend. However, with the proper education and improved financing options, the prospects for long-term sustainability of enterprises will increase and entice young people to stay with the venture. Currently, one of the key issues is the inability of start-ups to progress into established firms.<sup>93</sup>

For additional insight, it is helpful to compare and contrast the findings of this research survey with other related research. One survey that is representative of the existing research is the July 2010 Gallup Poll<sup>94</sup>. This survey represents the broader sub-Saharan Africa region which will facilitate putting the South African results into context. On the

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<sup>93</sup> GEM 2010

<sup>94</sup> <http://www.gallup.com/poll/139874/Sub-Saharan-Africans-Bank-Family-Business-Loans.aspx>

issue of the source of start-up funding, South Africa reflects the larger trend in Africa with bootstrapping being a main source.

<b>Imagine you wanted to start a business and needed money to start the business. Where would you primarily go?</b> <i>Open-ended</i> <i>Asked of adults in 18 Sub-Saharan countries</i>	
	%
<b>Family</b>	42
<b>Banks</b>	16
<b>Friends</b>	15
<b>Community groups/Savings clubs</b>	10
<b>Other/Don't know/Refused</b>	6
<b>Microfinance institutions</b>	4
<b>Moneylenders</b>	2
<b>Church/Mosque</b>	2
<b>NGOs</b>	2
<b>Employer</b>	1
Data weighted to 2008 World Bank adult population estimates	
Source: Gallup 2009	

There is a general lack of reliance on organizations which results from a mixture of distrust as well as ignorance about the available services. Like the survey conducted for this paper, African's rely heavily on friends and family, which can be very limiting given the financial constraints of the typically large extended families in Africa.

<b>I'm going to read out various sources of where one can borrow money from for business purposes. For each of them, could you tell me if you would ever consider them?</b> <i>Asked of adults in 18 Sub-Saharan countries</i>			
	% Yes, would consider	% No, would not consider	% Don't know/Refused
<b>Friends</b>	63	36	1
<b>Family</b>	81	19	1
<b>Community groups/Savings clubs</b>	38	60	2
<b>Banks</b>	38	59	3

<b>Moneylenders</b>	18	78	4
<b>Microfinance institutions/companies which help people obtain small loans for business, with interest</b>	34	62	4
<b>Church/Mosque</b>	32	64	4
Data weighted to 2008 World Bank adult population estimates			
Source: Gallup 2009			

This poll is important because it shows that the reliance on family stretched across urban and rural settings as well as socio-economic status, thus representing a deeper cultural underpinning. Additionally, as education increases, bank loans and credit become more of an option.

<b>Imagine you wanted to start a business and needed money to start the business. Where would you primarily go?</b> <i>Percentage spontaneously mentioning as primary source</i>				
	Family	Banks	Friends	Community groups/Savings clubs
<b>Urban</b>	40	22	14	7
<b>Rural</b>	42	13	16	11
<b>No formal education</b>	53	5	18	9
<b>1 to 8 years education</b>	38	13	17	14
<b>9 years through completed secondary</b>	42	20	13	8
<b>Some tertiary or tertiary complete</b>	35	33	11	7
<b>Poorest 20%</b>	39	13	17	10
<b>Second 20%</b>	41	12	20	10
<b>Middle 20%</b>	44	15	17	9
<b>Fourth 20%</b>	44	17	15	9
<b>Richest 20%</b>	42	24	12	8
Data weighted to 2008 World Bank adult population estimates				
Source: Gallup 2009				



When family and friends are removed from the equation, the impact of class becomes more apparent. The wealthier, urban and educated entrepreneurs prefer banks to the community groups. Additionally, the higher the education, the more access people have to banks and the more they prefer microfinance institutions over community groups. Class differences disappear in regards to choosing community groups over microfinance organizations in all but the richest 20% and moneylenders are the last choice in all scenarios.

<b>I'm going to read out various sources where one can borrow money from for business purposes. For each of them, could you tell me if you would ever consider them?</b>				
<i>Percentage yes, would consider</i>				
	Community groups/Savings clubs	Banks	Moneylenders	Microfinance Institutions
<b>Urban</b>	30	42	15	32
<b>Rural</b>	42	36	19	35
<b>No formal education</b>	40	25	17	29
<b>1 to 8 years education</b>	43	34	18	35
<b>9 years through completed secondary</b>	35	42	18	36
<b>Some tertiary or tertiary complete</b>	30	57	16	38
<b>Poorest 20%</b>	33	33	18	30
<b>Second 20%</b>	39	32	18	34
<b>Middle 20%</b>	37	34	18	34
<b>Fourth 20%</b>	39	41	18	36
<b>Richest 20%</b>	35	50	16	37
Data weighted to 2008 World Bank adult population estimates				
Source: Gallup 2009				

While all the participants in this paper's survey have bank accounts, some entrepreneurs manage to do business without one. These two groups seek capital in different ways as illustrated in the chart below. While those with bank accounts rely mainly on bank loans and family, those without a bank account (mainly survival entrepreneurs) seek funds from a wide array of sources. Therefore, although counterintuitive, it appears that survival entrepreneurs, through necessity, may be more knowledgeable about the various sources of funding, even though they don't qualify for it. Meanwhile, bank account holders may be relying too heavily on bank loans. Policy implications are that even well educated entrepreneurs may not be proactive enough in seeking out different avenues of funding.

<b>Imagine you wanted to start a business and needed money to start the business. Where would you primarily go?</b>		
<i>Percentage of adults who spontaneously mention this as a primary source</i>		
	Have a bank account	Do not have a bank account
<b>Friends</b>	7	17
<b>Family</b>	24	46
<b>Community groups/Savings clubs</b>	8	11
<b>Banks</b>	50	8
<b>Microfinance institutions</b>	5	4
<b>Moneylenders</b>	1	3
<b>Church/Mosque</b>	0	2
<b>NGOs</b>	0	2
<b>Employer</b>	0	1
<b>Other, specify</b>	0	1
<b>Don't know/Refused</b>	4	5
Data weighted to 2008 World Bank adult population estimates		
Source: Gallup 2009		

## 7 Chapter 7: Recommendations and Conclusion

*"The entrepreneur is our visionary, the creator in each of us. We're born with that quality and it defines our lives as we respond to what we see, hear, feel, and experience. It is developed, nurtured, and given space to flourish or is squelched, thwarted, without air or stimulation, and dies."*

- Michael E. Gerber

### 7.1 Increase Focus on Technology

Given the fact that information technology (IT) and financial services are the most resilient sectors<sup>95</sup>, the increased presence of these types of ventures will aid in job creation. With only 13% of survey participants representing technology, it behooves upcoming entrepreneurs to exploit the void and seek opportunities in the high-tech sector. Studies have shown that the IT sector has the potential to sprout over 2,300 new businesses and create over 90,000 jobs by 2013.<sup>96</sup> To circumvent the limitations of low skill levels in the local labor market, outsourcing might need to be incorporated in the business model until education catches up to market demands.

### 7.2 Harness the Power of the Internet

We have all witness over the past decade how the World Wide Web has exponentially enhanced the speed of communication and our ability to network. Similarly, the internet can be used to transform the entrepreneurial communities in South Africa. First, in order to tap into supporters and investors in key international markets, a virtual ecosystem should be established to create in-roads and partnerships. Second, a web portal listing financing options would help clarify exactly what options are available. While conducting research

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<sup>95</sup> According to the annual South African SME Survey

<sup>96</sup> International Data Corporation survey 2010

for this paper, it became apparent that information on the topic is hard to locate. Gathering data often requires jumping from website to website simply based on random links that pop up while reading an article or research report. It would be much more efficient if there was a centralized location that listed all or the most prominent and reputable sources of funding and categorize them logically.

### **7.3 Utilize International Resources**

According to the survey conducted for this paper, 68% of the entrepreneurs hiring local South Africans as part of their business. However, as illustrated by Silicon Valley in the United States, it is common and highly beneficial for young start-ups to have a presence overseas. Typical models to incorporating international resources include hiring programmers in India to build software or using design experts in China to build the product. This ideology is not pervasive enough in South Africa and needs to improve. It is especially critical when considering the network effects of working overseas which can expedite market entry for the firm's products as well as prepare entrepreneurs to open offices in foreign locations.

### **7.4 Attract International Investors**

The importance of international investors is undeniable. "In the most successful entrepreneurial hubs established in the past two decades, the critical early investments have not been made by domestic institutions, but rather by sophisticated international investors." <sup>97</sup> However, one challenge to establishing outreach to global investors will be convincing the South African entrepreneurs, who are concerned about protecting their

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<sup>97</sup> Lerner, Josh (2009). Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – And What to do about it, p, 12



intellectual property, that it will be beneficial to all parties. Several interview participants mentioned that they wanted to access offshore markets but were not particularly keen on offshore capital. They were probably overly optimistic in believing that good ventures would be financed locally in spite of all the issues present.

The solution to this problem is education. By exposing entrepreneurs to the successes and pitfalls of years past, they will be less likely to repeat mistakes and more inclined to embrace the growing interest of international players in South Africa. For example, stories such as those of Yozma Venture Capital Ltd can provide frameworks for success. Established in 1992 by the Israel government, Yozma was a \$100 million fund that was fully owned by the public sector. The key objective of Yozma was “to bring foreign venture capitalists’ investment expertise and network of contacts to Israel.”<sup>98</sup> The government even went as far as actively discouraging Israeli financiers from engaging with the program; it was exclusively for the international audience.

The program proved to be a huge success in using foreign interest to power the local entrepreneurial community. Similar to the current market in South Africa, Israeli entrepreneurs often failed because they were ineffective at both marketing their products and raising capital to fuel development. With Yozma, they were able to leverage the foreign expertise and conquer these obstacles. Moreover, many local partners who were recruited by the offshore VCs were able to setup their own funds in Israel, which in turn attracted international investors due to the Israeli’s prior success. The phenomenal return achievements of Yozma paved the way for follow-on funds. By 2002, the fund grew from

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<sup>98</sup> Ibid, p. 155

\$20 million to \$2.9 billion and helped to develop the VC market to over 60 investors who managed over \$10 billion. This type of globalization process needs to be fostered by the South African government as well as funds established by private firms.

## **7.5 Improve Government Programs**

The public sector is arguably the most critical pieces in the puzzle of improving entrepreneurial growth in South Africa. History has shown that all the major entrepreneurial hubs, such as Silicon Valley, Bangalore, Tel Aviv, Dubai's Internet City and the Guangdong and Zhejiang provinces, have had their growth aided by government intervention.<sup>99</sup> However, there have been many instances where government spending towards entrepreneurship was unsuccessful. Nevertheless, much can be learned from these failures and the focus should be on applying proven frameworks to South Africa.

First, the design and implementation of government programs need to be evaluated carefully. Many South African programs follow a top-down approach wherein official mandate a particular sector that should be funded without adequate consideration of what the market is indicating. This is a common pitfall in programs around the world and targeted funding often is unproductive.<sup>100</sup> Additionally, the design and incentive structure should minimize agency problems as well as recognize that many initiatives will require several years of support before they begin to bear fruit. Many public VC initiatives are deemed failures and abandoned after only a few years when in reality it takes a while to establish traction.

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<sup>99</sup> Lerner, Josh (2009). Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – And What to do about it. p. 5

<sup>100</sup> Ibid, p. 135

Second, the government organizations need to improve their operational efficiency as they maintain strikingly similar business models to numerous failed agencies of the recent past. These organizations should also be headed by industry professionals rather than be appointed politicians. Additionally, they should provide a structured environment where entrepreneurs receive financial education along with funding.

Third, according to the collected data, there are very strict credit laws currently in place that may be prohibiting qualified entrepreneurs from accessing funding. Therefore, it would be useful to look into the National Credit Act and the National Credit Regulations to assess their impact on access to finance for small entrepreneurs. With the new focus on increasing jobs and on entrepreneurial development, government officials must not only enact new laws but revise existing laws and adjust to the current economic needs of the country. For example, the time that it takes to cut through all the red tape, such as the lengthy registration process for new businesses, can significantly delayed market entry and be especially harmful to small businesses. Furthermore, up-front tax incentives for investments will encourage more people to supply funding. These are legislative issues that need to be addressed.

In continuing with Yozma example, the government's model of simple administration for the program was crucial in cutting down on inefficiencies. It is extremely important to make foreign investors comfortable with the structure of a fund. Therefore, it is recommended that governments establish funds that resemble the Delaware limited partnership model which is a global standard with a flow through tax status. Furthermore, the Israeli government matched the funding of international investors and the venture was

allowed to buy back the government stake within the first five years at the initial investment value plus 5-7% interest rate. So, in effect, the government was incentivizing the fund to be profitable.

Fourth, the government can provide a certifying effect that reaches more startups than the VC market. Take the fact that startups, especially those in the tech space, are hampered by information asymmetry as they know much more about their product and its potential than VCs know. This is the perfect opportunity for the government to establish specialists at agencies that are versed in cutting edge advancements in various fields which would enable them to identify sustainable new enterprises. Moreover, although technology firms are important, government programs can branch out into industries that VCs are uncomfortable funding and identify high-potential firms to assist.

Overall, the government role is vital. It is a delicate balance to stay involved but not overstep the bounds but the South African government must continue to foster an environment that is conducive to the continued growth of its entrepreneurs' impact both locally and abroad.

## **7.6 Take New Approach with Micro funding**

Lastly, South Africa has an interesting dilemma: the history of the country has created near monopolies in most industries. For example, the financial services sector is believed to be owned by a various interest groups that control 70% of the decision-making of who gets money. Based on the size of the market, which has over 50 million people, relationships matter more than the business model in the evaluation of a business model. The greatest opportunity is to facilitate a new financial funding model - similar to the current U.S.



President, Barack Obama, who used tons of micro donations to help win the election. South African entrepreneurs can look to micro funding for technology and related opportunities.

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## 9 Appendix

### 9.1 Questionnaire

Below is the content of the online survey that was used to collect participant data. It includes the list of questions and answer choices.

**Title:** South African Entrepreneur's Access To Capital

#### **Basic Information**

Name:\*

Email:\*

Gender: [Male, Female]

Company Name:\*

City in which your business is located:

Industry: *What is the primary sector in which your business operates?*

- Agriculture, Forestry, Fishing or Mining
- Business/Professional Services
- Consumer Goods & Services
- Education
- Entertainment
- Financial Services
- Health Care/Life Sciences
- Industrials
- Personal Services
- Real Estate
- Recreational Services
- Retail
- Technology
- Telecommunications
- Tourism
- Utility/Energy
- Other

Brief description of your business:

Has your business been selected by Endeavor? *Are you a registered entrepreneur with the Endeavor organization?\**

- Yes
- No

Do you own your own business? *Are you the Founder, CEO, President or other chief executive?*

- Yes
- No
- Other

### **Financing Options**

What sources of capital did you use to establish your business? *Select all that apply.*

- Angel investor
- Bank
- Bootstrapped
- Community (Church, etc)
- Family
- Friends
- Government Funding
- Micro-finance institution
- NGO
- Private Funding
- Venture Capital
- Other

Start-up financing story. Please share the challenges and triumphs you went through when establishing your firm.

Can I include your comments in my thesis paper? [Yes, No]

Did you have a partner when launching your business? (optional)

- Yes, my partner is South African
- Yes, my partner is from another African nation
- No

How helpful do you find the following non-profit organizations? (optional) Endeavor, Kauffman Foundation, Global Entrepreneurship Monitor, South African Institute for Entrepreneurship.

- Very Helpful
- Somewhat Helpful
- Neutral or N/A
- Unsatisfactory
- Very Unsatisfactory

How much money did you spend establishing your business? (optional)

If you raised money, how much did you ask for? (optional)

Of the money you asked for, how much did you receive? (optional)



Are you sure of where to go to get more funding if necessary? (optional)

VENTURE CAPITAL: Are you aware of the following firms? (optional) HBD Venture Capital, Hasso Plattner Ventures, Triumph Venture Capital, Cape Venture Partners.

- Yes, never used
- Yes, used
- No

GOVERNMENT FUNDING: Are you aware of the following resources? (optional) Khula Enterprise Finance Ltd, National Youth Development, The National Empowerment Fund, Industrial Development Corporation, Innovation Fund, Gauteng Enterprise Propeller, Red Door

- Yes, never used
- Yes, used
- No

Private Funding: Are you aware of the firm Business Partners? (optional)

- Yes, never used
- Yes, used
- No

MICRO-FINANCE: Are you aware of the following institutions? (optional) - Small Enterprise Foundation, Khula Micro-credit Outlets, South African Micro-finance Apex Fund, Women's Development Businesses, Marang Financial Services, Blue Financial Services

- Yes, never used
- Yes, used
- No

NGO: Are you aware of the following institutions? (optional) - Zimele Investments (Pty) Ltd, Masakhisane

- Yes, never used
- Yes, used
- No

Do you plan on listing your company on the Johannesburg Stock Exchange in the future? (optional)

- Yes
- No

### **Personal Opinions (Optional)**

*What are your feelings in regards to entrepreneurship in South Africa and how it can be improved in the future?*

Which African nation do you believe will become the hub of entrepreneurship in Africa? (optional)

- South Africa
- Nigeria
- Ghana
- Egypt
- Other

What is the biggest hindrance to the growth of entrepreneurship in your region? (optional)

- Government regulations
- Lack of access to capital (funding)
- Crime
- Lack of skilled workers/Poor education
- Social stigma against pursuing a risky career
- Other

**Additional Information (Optional)**

What is your primary online resource (website) of entrepreneurship in South Africa? (optional)

Are you a native South African? (optional)

- Yes,
- No, I am from another African nation
- No

Did you hire any South Africans as part of your business? (optional)

- Yes
- No

What is your highest level of education that you completed? (optional)

- No formal education
- Primary School
- Secondary School
- Tertiary School
- Other

How many businesses have you launched? (optional)

- 1
- 2
- 3-5
- 6-10
- 10+

What was your economic status prior to launching your business? (optional)

- Poor
- Middle Class

- Rich

Do you have a bank account? (optional)

- Yes
- No – don't need
- No – don't qualify

How old were you when you started your first business? (optional)

Are you willing to participate a brief interview? (optional)

Do you have any advice for South African entrepreneurs? (optional)

Do you have any general feedback about this survey or research initiative? (optional)

## 9.2 Facts about South Africa

People		World Rank
Population:	49,109,107	25
Age structure:	0-14 years: 28.9% (male 7,093,328/female 7,061,579)	
	15-64 years: 65.8% (male 16,275,424/female 15,984,181)	
	65 years and over: 5.4% (male 1,075,117/female 1,562,860) (2010 est.)	
Population growth rate:	-0.051%	202
Urbanization:	urban population: 61% of total population (2008)	
	rate of urbanization: 1.4% annual rate of change (2005-10 est.)	
Ethnic groups:	black African 79%, white 9.6%, colored 8.9%, Indian/Asian 2.5% (2001 census)	
Literacy:	definition: age 15 and over can read and write total population: 86.4% (2003 est.)	
School life expectancy (primary to tertiary education):	total: 13 years	
Education expenditures:	5.4% of GDP	
Source: CIA World Fact Book		



Other Factors that can affect businesses		World Rank
Natural hazards	prolonged droughts	
Telephones - mobile cellular:	46.436 million	26
Internet hosts:	3.751 million	24
Internet users:	4.42 million	54
Source: CIA World Fact Book		

### 9.3 Economic Snapshot of South Africa

Metric	2010	World Rank	2009	2008
GDP (purchasing power parity):	\$527.5 billion	26	\$512.2 billion	\$521.6 billion
GDP (official exchange rate):	\$354.4 billion			
GDP - real growth rate:	3.00%	124	-1.80%	3.70%
GDP - per capita (PPP):	\$10,700	105	\$10,400	\$10,700
GDP - composition by sector:	agriculture: 3%			
	industry: 31.2%			
	services: 65.8%			
Labor force:	17.32 million economically active	34		
Labor force - by occupation:	agriculture: 9%			
	industry: 26%			
	services: 65% (2007 est.)			
Unemployment rate:	23.30%	173	24%	
Population below poverty line:	50% (2000 est.)			
Household income or consumption by percentage share:	lowest 10%: 1.3%			
	highest 10%: 44.7% (2000)			
Distribution of family income - Gini index:	65 (2005)	2		
Investment (gross fixed):	19.9% of GDP	88		
Public debt:	33.2% of GDP	85	29.7% of GDP	
Inflation rate (consumer prices):	4.5%	131	7.20%	
Central bank discount rate:	7%	37	11.50%	
Commercial bank prime lending rate:	11.71%	44	15.13%	
Stock of narrow money:	\$65.87 billion	41	\$52.04 billion	
Stock of broad money:	\$256.2 billion	34	\$199.8 billion	
Stock of domestic credit:	\$328.3 billion	32	\$255.2 billion	
Market value of publicly traded shares:	\$704.8 billion	18	\$491.3 billion	\$833.5 billion
Agriculture - products:	corn, wheat, sugarcane, fruits,			



	vegetables; beef, poultry, mutton, wool, dairy products		
<b>Industries:</b>	mining (world's largest producer of platinum, gold, chromium), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, commercial ship repair		
<b>Industrial production growth rate:</b>	3%	109	
<b>Current account balance:</b>	-\$16.51 billion	178	-\$11.3 billion
<b>Exports:</b>	\$76.86 billion	38	\$66.54 billion
<b>Exports - commodities:</b>	gold, diamonds, platinum, other metals and minerals, machinery and equipment		
<b>Exports - partners:</b>	China 10.34%, US 9.19%, Japan 7.59%, Germany 7.01%, UK 5.54%, Switzerland 4.72% (2009)		
<b>Imports:</b>	\$77.04 billion	36	\$66.01 billion
<b>Imports - commodities:</b>	machinery and equipment, chemicals, petroleum products, scientific instruments, foodstuffs		
<b>Imports - partners:</b>	China 17.21%, Germany 11.24%, US 7.38%, Saudi Arabia 4.87%, Japan 4.67%, Iran 3.95% (2009)		
<b>Reserves of foreign exchange and gold:</b>	\$45.52 billion	25	\$39.68 billion
<b>Debt - external:</b>	\$80.52 billion	43	\$73.84 billion
<b>Stock of direct foreign investment - at home:</b>	\$83.08 billion	40	\$73.61 billion
<b>Stock of direct foreign investment - abroad:</b>	\$53.38 billion	32	\$51.58 billion
<b>Exchange rates:</b>	rand (ZAR) per US dollar - 7.38 (2010), 8.4234 (2009), 7.9576 (2008), 7.05 (2007), 6.7649 (2006)		
<i>Source: CIA World Fact Book, note: data are in 2010 US dollars</i>			